

Chairman’s report



David Martin  
Chairman

**I have been very impressed by the way our businesses responded to the unprecedented challenge created by the coronavirus pandemic. I am extremely proud of our people who have played such an important part in continuing to deliver much needed services throughout the crisis.**

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**Dear Shareholder**

A lot has happened since last year’s report. When I joined FirstGroup in August 2019, I said I was pleased to be joining at a key point in its development, but I acknowledged that there were undoubtedly challenges ahead in unlocking the considerable value within the Group. I could not have anticipated then the additional challenges we would be facing as a result of coronavirus.

**Impact of coronavirus**

As the Chief Executive explains in his report on page 9, this year will, inevitably, come to be remembered for the events that began in the last three weeks of our financial year when the Company had to react to the rapid spread of the coronavirus in all our key markets.

As I note in my statement on page 6, I have been very impressed by the way our businesses responded to the unprecedented challenge created by the coronavirus pandemic. I am extremely proud of our people who have played such an important part in continuing to deliver much needed services throughout the crisis.

As well as the more immediate operational and financial measures that had to be put in place, our governance framework also had to adapt to working in lockdown, and I am pleased to say that our governance processes stood up well to operating in a very different working environment. We have explained in this report on page 95 how the Board and its Committees adapted to meet that challenge.

**Engaging with stakeholders**

Engaging with shareholders, and their representative bodies, and being fully aware of their views, is a cornerstone of good corporate governance. The Board and I have maintained an ongoing dialogue with shareholders throughout the year. Those discussions and exchanges are discussed at each of our Board meetings.

At last year’s AGM four of the resolutions put to shareholders received ‘significant votes against’ (where 20% or more of the votes cast were against the resolution). Details of how we responded to those matters are set out on page 91.

The UK Corporate Governance Code (the Code) rightly places great emphasis on the need for directors to build and maintain successful relationships with a wide range of stakeholders, not just shareholders. Those relationships should be based on respect, trust and mutual benefit. That in turn requires integrity and openness in those discussions and it is incumbent on boards to be responsive to the views of all stakeholders. That is very much the approach your Board endeavours to adopt.

The Board is also mindful of its obligations under section 172 of the Companies Act 2006 to have regard to the views and interests of wider stakeholders when taking decisions. Examples of how that has influenced our decisions and how we engaged with our stakeholders this year can be found on page 44 – Our stakeholders. Our approach to ESG is set out on page 38 – Sustainability.

**Strategic priorities**

Since joining the Board I have regularly engaged with our major shareholders in order to understand their views and perspectives on the Group’s strategic priorities. In December 2019 we announced that we would formally explore all options in respect of our North American contract businesses. Subsequently on 11 March 2020 we announced that a formal sale process for First Student and First Transit had commenced.

As I explain in my statement on page 6, the Board is confident that the execution of the portfolio rationalisation strategy at the right time remains the best way to realise the long-term value of our businesses for all of our shareholders. This remains the Board’s key focus.

**Board composition**

There has been a number of changes to our Board since last year’s AGM and these are summarised on the table on page 77 and further explained in the report of the Nomination Committee on page 96. Following these changes, I am satisfied that the Board is the right size and that we have an appropriate mix of skills, experience and knowledge to promote the long-term sustainable success of the Company and, in the shorter term, to provide effective oversight of our portfolio rationalisation plans. More details of Board members and their skills and experience are summarised on page 79 – Board of Directors.

### Diversity and workforce engagement

The Board remains committed to equality of opportunity, diversity and inclusion at every level, both in the Board and across our wider business. We believe diverse experiences and attitudes help us better understand the needs of our customers and communities and deliver more creative and innovative solutions. More details of our approach to diversity can be found on page 49, and details of how the Nomination Committee provides oversight can be found in the Nomination Committee report on page 96.

In addition, since its founding the Company has had a Group Employee Director on the Board as a way of ensuring the views of our wider workforce are heard.

### Safety

At the Board, safety is always front of mind. Like a lot of companies, our workforce and their families were directly impacted by the coronavirus and we were deeply saddened by the loss of employees at each of our five divisions due to the outbreak.

In terms of operational safety, our goal is for zero injuries and we continue to evolve and develop our safety programmes across the Group. More information on our safety activities can be found on page 42 – Safety and in the Board Safety Committee report on page 108.

### Remuneration

There continues to be a great deal of focus on directors' and executive remuneration and the need to ensure policies are designed to support strategy and promote long-term sustainable success. The revised Code places renewed emphasis on the need to have regard to remuneration levels in the wider workforce when setting executive remuneration. The Remuneration Committee report on page 110 describes how the Committee applied the Remuneration Policy both during the year and also in the context of the Company's response to coronavirus which included voluntary reductions in salary taken by the senior executive team and members of the Board.

## Board and Committee composition

When	What happened
<b>2 May 2019</b>	Julia Steyn appointed Non-Executive Director (NED)
<b>31 May 2019</b>	Ryan Mangold appointed Chief Financial Officer Drummond Hall stepped down as NED and Senior Independent Director (SID) David Robbie appointed SID
<b>25 July 2019</b>	Wolfhart Hauser stepped down as Chairman David Robbie appointed Interim Chairman
<b>15 August 2019</b>	David Martin appointed Chairman
<b>30 September 2019</b>	Jim Winestock stepped down as NED Martha Poulter joined Board Safety Committee (BSC) as Chair Warwick Brady joined Nomination Committee
<b>5 November 2019</b>	Julia Steyn joined Audit Committee David Robbie joined Nomination Committee
<b>24 January 2020</b>	Sally Cabrini appointed NED and Chair of the Remuneration Committee
<b>14 February 2020</b>	Imelda Walsh stepped down as NED Sally Cabrini joined BSC
<b>29 June 2020</b>	Jimmy Groombridge resigned as Group Employee Director

### Chairman's report continued

#### Changes to the Code

A revised edition of the Code was published by the FRC in August 2018. The new provisions apply to FirstGroup for the first time this year.

Throughout the year, we believe we have complied with all of the relevant provisions of the Code and on page 94 we have explained how we applied the principles set out in the Code. One of the key changes to the new Code is a provision requiring Boards to monitor company culture. Page 93 describes how the Board has satisfied itself that our culture is aligned with our purpose, values and strategy.

#### Going concern

Like a lot of companies, we face an uncertain future as a result of coronavirus. It is difficult to assess with any degree of certainty what effect the continued impact of the coronavirus crisis might have on the wider economy and the transport sector in the markets in which the Group operates. It is therefore highly uncertain what impact there might be on the Group's future trading performance and financial position.

In the context of so much uncertainty, your Board had a duty to consider carefully whether it was appropriate to prepare the financial statements on a going concern basis. After careful reflection, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that despite the material uncertainties noted on page 73 it was appropriate that the financial statements be prepared on a going concern basis. Further details of the Board's considerations are set out on page 72 – Going concern statement, page 69 – Prospects and viability and in the Audit Committee report on page 98.

#### Outlook

As I note in my statement on page 6, the long-term fundamentals of our businesses remain sound. Despite near-term uncertainty in the wider markets, our businesses have demonstrated that they are resilient. The Board is resolutely focused on delivering our plans – including the portfolio rationalisation strategy – in the best interests of all shareholders.

#### Annual General Meeting

The AGM this year will be held later than usual on 15 September. Unfortunately, because of the ongoing difficulties of holding meetings during the current lockdown, we have decided to hold a closed form AGM this year. That has been a difficult decision, but we had to put the safety of our shareholders and employees first. More details of the arrangements, including voting arrangements and the processes we are putting in place to allow shareholders to raise questions in advance of the meeting, can be found on page 95 and in the notice of AGM.

Finally, and on behalf of the Board, I would like to thank and acknowledge the contribution and service to the Board of my predecessor Wolfhart Hauser, and Drummond Hall, Jim Winestock, Imelda Walsh and Jimmy Groombridge, each of whom stood down from the Board during the year.

**David Martin**  
Chairman

# Board of Directors



**David Martin** <sup>N</sup>  
Non-Executive Chairman



**Matthew Gregory** <sup>S F X</sup>  
Chief Executive



**Ryan Mangold** <sup>F S X</sup>  
Chief Financial Officer

## Key

- <sup>A</sup> Audit Committee
- <sup>R</sup> Remuneration Committee
- <sup>N</sup> Nomination Committee
- <sup>B</sup> Board Safety Committee
- <sup>S</sup> Executive Safety Committee
- <sup>X</sup> Executive Committee
- <sup>F</sup> Financial Expert
- Chair

**Appointed:** 15 August 2019

**Key areas of expertise:**

Transportation, Business Turnaround, Performance Improvement, Contracting, M&A

**Skills and experience:** David is the former Chief Executive of Arriva, which he joined in 1998 as board member responsible for international development before taking over the leadership of the company in 2006. During his tenure, Arriva was transformed into a multinational transport services group through a number of key strategic mergers and acquisitions. In September 2010 the company was purchased by Deutsche Bahn, one of the world's leading passenger transport and logistics companies. David remained as Chief Executive throughout this period, before stepping down in January 2016. He remained on the Arriva Board advising on a range of issues until May 2017. He was formerly a Non-Executive Director at Ladbrokes plc and previously held roles at British Bus plc, where he was responsible for development of strategy and M&A, at shipping company Holyhead Group and at business services group Initial Services PLC. David is a chartered management accountant.

**Other appointments:** Senior Independent Director at Biffa plc; member of the advisory board at Nottingham Business School; member of the steering committee at Nottingham Trent University.

**Nationality:** British

**Appointed:** 2015 and became Chief Executive in 2018

**Key areas of expertise:**

Transportation, Contracting, Corporate finance/M&A, Business Turnaround, Safety, Governance

**Skills and experience:**

Matthew has a deep understanding of FirstGroup, having joined the Company as Chief Financial Officer (CFO) in December 2015, before his appointment as Chief Executive in November 2018. Matthew has strong strategic and operational expertise, including delivering strategy and driving performance improvement. He has extensive international experience, including significant M&A and corporate finance activity. He was formerly Group Finance Director of Essentra plc, a component manufacturer and distributor, having previously been Director of Corporate Development, where he was responsible for multiple international acquisitions, as well as driving growth and margin improvement in the group's largest division. His early career was spent at the manufacturing and distribution division of Rank Group plc where he was responsible for managing multinational corporations, introducing new technologies and restructuring legacy businesses. Matthew qualified as a chartered accountant at EY and has recent and relevant financial experience.

**Nationality:** British

**Appointed:** 31 May 2019

**Key areas of expertise:**

Corporate finance/M&A, Business Turnaround, Pensions, Governance

**Skills and experience:** Ryan was appointed as CFO in May 2019, having previously been Group Finance Director of Taylor Wimpey Plc for eight years. Ryan has a strong track record of building financial discipline in the organisations he has worked at. During his time at Taylor Wimpey, Ryan played a leading and integral role in strengthening the balance sheet, driving operational improvements, rebuilding the business post the financial crisis (to become a constituent of the FTSE 100), the sale of the North American business and the improvement of its pensions position. Ryan was previously at Anglo American group of companies, where he was Group Financial Controller at Mondi and played a significant role in its demerger from Anglo American in 2007. Ryan is a chartered accountant and has recent and relevant financial experience.

**Nationality:** South African/  
British

## Governance

continued

## Board of Directors continued



**David Robbie** <sup>A</sup> <sup>R</sup> <sup>F</sup> <sup>N</sup>  
Senior Independent  
Non-Executive Director  
Chair of the Audit Committee

**Appointed:** 2018, became Senior Independent Director in May 2019 and served as Interim Chairman during July and August 2019

**Key areas of expertise:** Transportation, Contracting, Business Turnaround, Corporate finance/M&A, Pensions, Governance

**Skills and experience:** David brings valuable turnaround experience to the Board, with a lead role in the integration of P&O with Royal Nedlloyd, and operational efficiency, cash optimisation and improved ROCE programmes at Rexam following its strategic refocus from 2010. He has significant international corporate finance and M&A transaction experience. He was Finance Director of Rexam PLC from 2005 until its acquisition by Ball Corporation in 2016. Prior to his role at Rexam, David served in senior finance roles at BTR plc before becoming Group Finance Director at CMG plc in 2000 and then CFO at Royal P&O Nedlloyd N.V. in 2004. He served as a NED of the BBC between 2006 and 2010 and as Chairman of its Audit Committee. David originally qualified as a chartered accountant at KPMG and has recent and relevant financial experience.

**Other appointments:** NED, Chair of the Audit Committee and member of the Nomination and Remuneration Committees of DS Smith Plc.

**Nationality:** British



**Sally Cabrini** <sup>R</sup> <sup>B</sup>  
Independent Non-Executive Director  
Chair of the Remuneration Committee

**Appointed:** 24 January 2020

**Key areas of expertise:** HR, IT, Transformation

**Skills and experience:** Sally was NED and Chair of the Remuneration Committee of Lookers plc from January 2016 until June 2020. Prior to that she was a senior executive at FTSE 100 constituent United Utilities plc for nine years, including four years as Business Services Director with responsibility for information technology and human resources. Sally was Director of Transformation, IT and People at Interserve Group Limited until recently. Sally is a graduate of Anglia Ruskin University and a Fellow of the Chartered Institute of Personnel and Development.

**Other appointments:** NED and Chair of the Remuneration Committee of Appreciate Group plc.

**Nationality:** British



**Martha Poulter** <sup>B</sup> <sup>A</sup>  
Independent Non-Executive Director;  
Chair of the Board Safety Committee

**Appointed:** 2017

**Key areas of expertise:** Transportation, Corporate finance/M&A, Business Turnaround, IT/technology, Governance

**Skills and experience:** Martha has deep expertise in technology and cyber security, specialising in the integration of new technology systems to transform and enable business performance. Throughout her career she has led technology programmes across hospitality, finance and service industries, with a strong focus on customer service and driving operational improvements and efficiencies. Martha has led and executed technology strategies across Europe, America and Asia. Most recently Martha was the Executive Vice President and Chief Information Officer (CIO) of Starwood Hotels & Resorts Worldwide and, prior to that, she was Vice President of General Electric and CIO of GE Capital with global responsibility for IT strategy and operations.

**Other appointments:** Senior Vice President and CIO of Royal Caribbean Cruises Ltd.

**Nationality:** American



**Warwick Brady** <sup>N</sup> <sup>A</sup>  
Independent Non-Executive Director

**Appointed:** 2014

**Key areas of expertise:** Transportation, Corporate finance/M&A, Business Turnaround, Safety, Governance

**Skills and experience:** Warwick has a strong track record of delivering restructuring, cost reduction and modernisation programmes, particularly in the transportation sector. His previous roles include Chief Executive of Mandala Airlines in Asia, Deputy Operations Director at Ryanair plc, and Chief Operating Officer at Air Deccan/Kingfisher in India and easyJet plc, during its transformation to become a FTSE 100 business. Warwick also held board positions at Airline Group and NATS, the UK's airspace provider, and was Deputy CEO of Buzz.

**Other appointments:** CEO of Stobart Group Ltd, where he has delivered on M&A, turnarounds, complex financing and strategic re-focus to position the business for significant future shareholder value generation; and strategic Board Advisor at Vistair Systems Ltd.

**Nationality:** South African/  
British



**Steve Gunning** <sup>(A)</sup> <sup>(F)</sup>  
Independent Non-Executive Director

**Appointed:** 2019

**Key areas of expertise:**

Transportation, Corporate finance/M&A, Business Turnaround, Pensions, Safety, Governance

**Skills and experience:** Steve is CFO of International Airlines Group (IAG), the parent company of British Airways, having previously served as CFO of British Airways for three years. Prior to that he was CEO of IAG's Cargo Division for five years. During his career Steve has gained considerable experience leading operational turnarounds, overseeing major corporate integration processes, corporate governance and complex pension negotiations. Steve qualified as a chartered accountant at PwC and gained experience in both the UK and the US and worked in the rail, financial and manufacturing sectors. Steve has recent and relevant financial experience.

**Other appointments:** Director of IAG Global Business Services.

**Nationality:** British



**Julia Steyn** <sup>(A)</sup> <sup>(R)</sup> <sup>(F)</sup>  
Independent Non-Executive Director

**Appointed:** 2 May 2019

**Key areas of expertise:**

Transportation, Contracting, Corporate finance/M&A, Governance

**Skills and experience:** Julia brings extensive knowledge of the US transport industry to the Board. Julia served as Vice President, Urban Mobility and Maven at General Motors (GM) until earlier this year. Maven combines all of GM's car- and ride-sharing offerings, including its strategic alliance with Lyft, under a single personal mobility brand. Julia first joined GM in 2012 as Vice President, Corporate Development and Global M&A, to manage GM's partnerships globally while also developing merger and acquisition opportunities. Prior to this, Julia was Vice President and Co-Managing Director for Alcoa's corporate development group, having previously worked in London, Moscow and New York for Goldman Sachs and A.T. Kearney.

**Other appointments:** Chief Executive Officer of BOLT Mobility.

**Nationality:** American

## Former Director

**Jimmy Groombridge** <sup>(B)</sup>  
Group Employee Director

**Appointed:** 2017

**Resigned:** 29 June 2020

**Key areas of expertise:**

Transportation, HR/employees, Safety

**Skills and experience:** Jimmy was a bus driver for almost 40 years and, having worked on projects for different departments within FirstGroup, he brings a unique experience of employee engagement at all levels to the Board. He is currently an employee of First Eastern Counties, where he served as Employee Director for more than a decade. He also served as the regional Employee Director for Norfolk and Essex. Safety is a passion for Jimmy and as such he is a champion of our Group safety programme 'Be Safe'.

**Nationality:** British

## Executive Committee members

**Matthew Gregory**

Chief Executive

**Rachael Borthwick**

Group Corporate Services Director

**Giles Fearnley**

Managing Director, First Bus

**Keith Hubber**

General Counsel and Company Secretary

**Dave Leach**

President, Greyhound

**Ryan Mangold**

Chief Financial Officer

**Steve Montgomery**

Managing Director, First Rail

**Paul Osland**

President, First Student

**Brad Thomas**

President, First Transit

## Former Directors who served for part of the year

**Drummond Hall**

Drummond stepped down from the Board on 31 May 2019.

**Wolfhart Hauser**

Wolfhart stepped down as Chairman on 25 July 2019.

**Jim Winestock**

Jim stepped down from the Board on 30 September 2019.

**Imelda Walsh**

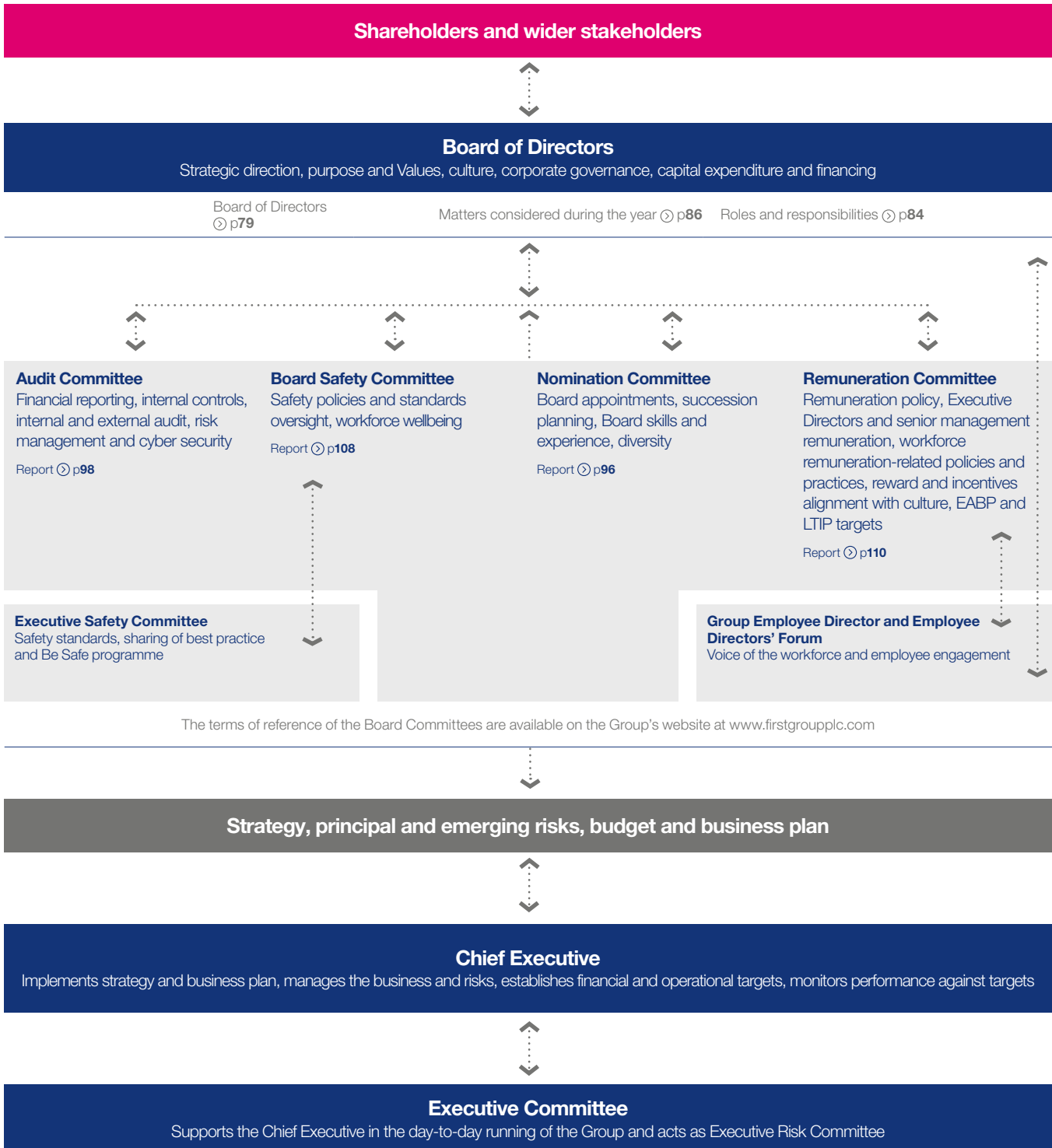
Imelda stepped down from the Board on 14 February 2020.

# Governance

continued

## Our governance framework

The Board operates within a defined governance framework in place throughout the Group. That framework incorporates a risk management and internal control framework which identifies, evaluates and manages the principal risks associated with the Group's achievement of its business objectives, with a view to safeguarding shareholders' investment and the Group's assets. The systems in place for managing and mitigating significant risks incorporate performance management systems and appropriate remuneration incentives.



# Leadership and purpose

## The role of the Board

The Board is accountable to shareholders for managing the Company in a way which promotes its long-term sustainable success, generating value for shareholders and contributing to wider society. The Board sets out the Group's strategic aims, monitors the Group's strategic objectives and oversees their implementation by the Chief Executive. There is a formal schedule of matters reserved to the Board. The schedule is reviewed annually and it was last amended in November 2019.

The Board is primarily responsible for:

- determining the Company's strategic direction
- setting the Company's purpose, Values and strategy and ensuring that these and the Company's culture are aligned
- establishing a framework of prudent and effective controls which enable risks to be assessed and managed
- determining the nature and extent of the principal risks the Group is willing to take to achieve its strategic objectives
- effective engagement with shareholders and stakeholders
- ensuring workforce policies and practices are consistent with the Company's values and support its long-term sustainable success
- ensuring there are mechanisms in place that allow the workforce to raise any matters of concern
- governance and stewardship of the Company's assets
- ensuring that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations

## Our purpose and Vision

We provide easy and convenient mobility, improving quality of life by connecting people and communities.

## Our Values

- Committed to our customers
- Dedicated to safety
- Supportive of each other
- Accountable for performance
- Setting the highest standards

Our Values are recognised across the Group and are fundamental to the way we operate. We see these Values as key to the way we work with our customers, suppliers, employees and stakeholders in general.

## Matters reserved for the Board at a glance

- Vision, Values and overall governance framework
- strategy and long-term objectives
- major acquisitions, mergers or disposals
- UK rail franchise bids
- dealings with regulatory authorities on matters of significance
- capital and liquidity matters
- medium-term plan and annual budget
- financial results, viability statement and governance
- the appointment and removal of Directors and the Company Secretary

## The Committees of the Board

The four principal Committees of the Board are:

- Audit Committee
- Board Safety Committee
- Nomination Committee
- Remuneration Committee

Each Committee has written terms of reference which were reviewed during the year and changed where appropriate. These are available to view on the Company's website at [www.firstgroupplc.com](http://www.firstgroupplc.com). Committee composition is set out in the relevant Committee reports. The main role of each Committee and the interactions in the governance process are shown in the schematic on page 82 – Our governance framework

## The Executive Committee

The Executive Committee supports the Chief Executive in the day-to-day running of the Group. It meets quarterly, the meetings are chaired by the Chief Executive and its main responsibilities are to:

- act as a communication forum for discussing Group-wide issues
- communicate, review and agree significant issues and actions
- help to develop, implement and monitor strategic and operational plans
- take active control of succession planning, talent management, areas of expertise, innovation and IT
- consider the continuing applicability, appropriateness and impact of risks, acting as Executive Risk Committee
- lead the Group's culture and safety programme, supported by the Executive Safety Committee

The Executive Committee also provides leadership and direction for the Group on our ESG matters, including climate change. Updates on material issues relating to corporate responsibility are reported to the Executive Committee, with ad hoc matters raised in between formal meetings. Related risks and opportunities are incorporated into our risk management framework.

The Chief Executive and the Group Corporate Services Director regularly update the Board on ESG matters so that the Board is able to identify and assess the significant ESG risks to the Company's short- and long-term value, as well as the opportunities to enhance value that may arise. Our approach to ESG is set out on page 38 – Sustainability.

The Executive Committee membership can be found on page 81.



## Division of responsibilities

### Roles and responsibilities

The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive, and these roles, as well as those of other Directors, are clearly defined so that no single individual has unrestricted powers of decision.

#### Our Chairman

- ensures effective communication with shareholders and other stakeholders, and that their views are understood by the Board
- provides support and challenge to the Chief Executive in order to maintain an effective working relationship
- ensures the Board operates efficiently and in conformity with the highest standards of corporate governance
- ensures Board meetings are effective and open and constructive debate is promoted, the views of all Directors are taken into account and adequate time is available for discussion on all agenda items
- chairs the Nomination Committee and ensures the Board has an appropriate balance of skills and experience and effective succession planning in place
- facilitates effective and constructive relationships and communications between Non-Executive Directors, Executive Directors and senior management

#### Our Chief Executive

- promotes the creation and maintenance of a safe working environment and a safety-focused culture across the Group; he does the latter by leading the Executive Safety Committee
- ensures the Group's Values are embedded and sets the tone from the top
- leads the Executive Committee in the day-to-day running of the Group's business
- develops the Group's business objectives and strategy, having regard to the interests of shareholders, customers, employees and other stakeholders

- ensures the business of the Group is conducted, and results are delivered, in the right way
- establishes and maintains an organisational structure that enables the Group's strategy to be implemented effectively
- leads communication with shareholders
- establishes a strong senior management team which has the knowledge, skills, attitude and motivation to achieve the Group's business objectives and strategy, and with appropriate succession planning to ensure that this continues in the future.
- promotes the interests of the Company with special regard to planning and development to secure the Group's future and sustainable success

#### Our Senior Independent Director

- acts as a point of contact for shareholders and other stakeholders to discuss matters of concern
- acts as a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary
- meets with the Non-Executive Directors without the Chairman being present at least annually and leads the Board in the ongoing monitoring and annual performance evaluation of the Chairman
- deputises for the Chairman, as necessary

#### Our Group Employee Director

- promotes employee involvement and participation in the affairs of the Group, through share ownership, employee surveys and other means
- identifies methods of achieving such employee involvement and participation and assists the FirstGroup Board to implement these
- encourages suggestions from employees for improvements in the business of the Group and identifies how such suggestions can be evaluated and implemented where appropriate
- considers the implications for employees of political developments and initiatives, particularly in relation to transport policy and safety
- considers issues of a strategic or commercial nature and their impact on employees
- promotes the Group's policies and procedures amongst employees, in particular those related to safety, diversity and inclusion, and business ethics
- demonstrates and promotes the Group's Vision and Values amongst employees

#### Our Non-Executive Directors

- provide a strong independent element to the Board and a solid foundation for good corporate governance, fulfilling a vital role in corporate accountability
- challenge constructively the strategies proposed by the Executive Directors
- scrutinise the performance of management in achieving agreed goals and objectives
- play a leading role in the functioning of the main Board Committees

## Leadership and purpose

### Board meetings

The Board typically meets six times a year, and usually has at least two meetings in the US. The Committees meet as necessary, and meetings are usually scheduled immediately before or after Board meetings. Additional ad hoc meetings and conference calls are arranged as and when required to consider matters which require decisions outside the scheduled meetings.

To assist the Board and its Committees in their work, Company Secretariat produces a twelve-month rolling programme of agenda items to ensure all necessary matters are covered and to allow sufficient time for debate and challenge. At Board meetings, the Directors receive and consider papers and presentations from management on relevant topics and senior executives are regularly invited to attend meetings for specific items.

Board meetings are typically structured around:

- strategy
- financial and operational updates
- divisional updates
- assessment of risks and how they should be managed and mitigated
- items for approval
- reports from the Chief Executive, the CFO, Committee Chairs, the Group Employee Director and the General Counsel & Company Secretary

Directors are also provided with training to ensure they are kept up to date on relevant legal, regulatory and financial developments, changes in best practice and ESG and corporate governance matters. During the year, the Audit Committee received training on corporate governance developments (facilitated by Deloitte) and rail accounting matters (facilitated internally). The training was open to all Board members.

In order to assist all Directors in the performance of their duties, they receive information between meetings regarding Group business developments, financial performance and shareholder sentiment.

The Chairman sets aside time after each scheduled Board meeting for the Non-Executive Directors to discuss matters addressed at the Board and to get their input on the agenda for the coming months.

### Commitment

All Directors are expected to attend each Board meeting and each Committee meeting for which they are members, unless there are exceptional reasons preventing them from

### Meeting attendance during the year

The attendance of Directors at Board meetings, scheduled and non-scheduled, in the year ended 31 March 2020 is shown on the table below. Committee meetings attendance is shown in the respective Committee reports. Attendance at meetings held between April and July 2020 is shown on the table on page 87.

Board Director	Scheduled meetings		Non-scheduled meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
<b>Chairman</b>				
Wolfhart Hauser <sup>1</sup>	2	2	7	7
David Martin <sup>2</sup>	4	4	4	4
<b>Executive Directors</b>				
Matthew Gregory	6	6	12	12
Ryan Mangold <sup>3</sup>	5	5	9	9
<b>Non-Executive Directors</b>				
Warwick Brady	6	6	12	9
Sally Cabrini <sup>4</sup>	1	1	3	3
Jimmy Groombridge <sup>5</sup>	6	6	12	12
Steve Gunning	6	6	12	9
Drummond Hall <sup>6</sup>	1	1	3	3
Martha Poulter	6	6	12	9
David Robbie	6	6	12	12
Julia Steyn <sup>7</sup>	6	6	11	10
Imelda Walsh <sup>8</sup>	5	5	9	9
Jim Winestock <sup>9</sup>	3	3	8	6

1 Wolfhart Hauser stepped down on 25 July 2019.

2 David Martin was appointed on 15 August 2019.

3 Ryan Mangold was appointed on 31 May 2019.

4 Sally Cabrini was appointed on 24 January 2020.

5 Jimmy Groombridge resigned on 29 June 2020.

6 Drummond Hall retired on 31 May 2019.

7 Julia Steyn was appointed on 2 May 2019.

8 Imelda Walsh stepped down on 14 February 2020.

9 Jim Winestock retired on 30 September 2019.

participating. Only members of the Committees are entitled to attend their meetings, but others may attend at the Committee's discretion. Non-Executive Directors have an open invitation to attend any Committee meetings, even if they are not a member, and they do so regularly to gain further insight. Executive Directors attend Committee meetings by invitation only.

Directors unable to attend meetings for whatever reason receive the papers and other relevant information in advance of the meeting and have the opportunity to discuss with the relevant Chair or the Committee Secretary any matters they wish to raise and to follow up on after the meeting. The Chairman, Chief Executive and Company Secretary are always available to discuss issues relating to meetings or other matters with the Non-Executive Directors.

Reasons for non-attendance are generally prior business commitments or illness.

During the year, a number of corporate events, such as the period between April and June 2019 when the Board responded to the requisitioning of a General Meeting by Coast Capital, meant that meetings had to be called at short notice with some Directors unable to attend because of previously arranged commitments which they could not cancel.

This has been the case for Warwick Brady, Steve Gunning, Martha Poulter and Jim Winestock who missed non-scheduled meetings. Scheduled meetings were however fully attended by all Directors during the year. The table above provides further detail.

The Board is satisfied that each of the Non-Executive Directors is able to devote sufficient time to the Company's business.

## Leadership and purpose

### Principal matters considered by the Board during 2019/20 and at the beginning of 2020/2021

The principal matters considered by the Board are set out on the table below and on the next page. They all link to the Group's strategy and other priorities. This illustrates how our governance framework contributes to the delivery of our strategy, in line with provision 1 of the Code. As part of the business of each scheduled Board meeting, the Chief Executive submits a progress report, giving details of business performance and our progress against the goals the Board has approved, in particular our portfolio rationalisation strategy. Since March 2020, the Chief Executive has updated the Board on portfolio rationalisation and response to coronavirus weekly.

When	Board activity	
<b>2019/2020</b>	April	<ul style="list-style-type: none"> <li>Internal Board and Committee evaluation</li> </ul>
	May	<ul style="list-style-type: none"> <li>Appointments of Julia Steyn and Ryan Mangold</li> <li>Work in preparation for requisitioned General Meeting</li> <li>Final results</li> <li>Strategy review and announcement of portfolio rationalisation</li> <li>Review of Board and Committee evaluation results</li> </ul>
	June	<ul style="list-style-type: none"> <li>General Meeting</li> </ul>
	July	<ul style="list-style-type: none"> <li>Annual General Meeting</li> <li>Conclusion of external audit tender and appointment of PwC</li> </ul>
	August	<ul style="list-style-type: none"> <li>West Coast Partnership award</li> <li>Appointment of David Martin</li> </ul>
	September	<ul style="list-style-type: none"> <li>Portfolio rationalisation discussions</li> </ul>
	October	<ul style="list-style-type: none"> <li>Employee Directors' Forum and subsequent report to the Board by the Group Employee Director</li> <li>David Martin induction and site visits</li> </ul>
	November	<ul style="list-style-type: none"> <li>Half yearly results</li> <li>Response to shareholder feedback following votes at General Meeting and AGM</li> <li>External Board and Committee evaluation</li> <li>Strategy discussions on portfolio rationalisation</li> <li>Progress update on Greyhound sale process</li> </ul>
	December	<ul style="list-style-type: none"> <li>Review of strategic options for North American contract businesses, First Student and First Transit</li> <li>Strategy update to the market on portfolio rationalisation</li> </ul>
	January	<ul style="list-style-type: none"> <li>Treasury and pensions update</li> <li>Viability statement -early review and input into scenario planning</li> <li>Rail strategy review</li> <li>IT strategy review</li> <li>Talent and succession planning</li> <li>Appointment of Sally Cabrini as Non-Executive Director and Chair of the Remuneration Committee</li> <li>Review of Board and Committee evaluation results</li> <li>Update on portfolio rationalisation planning</li> </ul>
	February	<ul style="list-style-type: none"> <li>Operational and financial review and full year profit outlook</li> <li>Sally Cabrini induction and safety visits</li> </ul>
	March	<ul style="list-style-type: none"> <li>Preliminary Group budget</li> <li>GWR direct award</li> <li>Trading update and update on portfolio rationalisation</li> <li>Assessment of initial impact of coronavirus and response to government actions</li> <li>Cost reduction and cash preservation actions in response to coronavirus</li> <li>Review of initial coronavirus financial stress testing results</li> <li>Review of Rail Emergency Measures Agreements</li> </ul>

When	Board activity	
2020/2021	April	<ul style="list-style-type: none"> <li>■ Review of liquidity enhancements, including access to Covid Corporate Financing Facility</li> <li>■ Divisional presentations on their response to coronavirus and preparations and review of impact on operations, health and safety considerations (including the provision of PPE), community engagement across the businesses</li> <li>■ Review of government support measures</li> <li>■ Update on shareholder engagement since the outbreak of coronavirus</li> <li>■ Update on preparations for the sale of First Student and First Transit in light of coronavirus impact</li> </ul>
	May	<ul style="list-style-type: none"> <li>■ Oversight of operations to ensure continuity of essential services</li> <li>■ Update on ongoing preparatory work in support of the sale of the North American divisions</li> </ul>
	June	<ul style="list-style-type: none"> <li>■ Review of latest modelling in support of going concern and viability statements, liquidity headroom and covenant testing</li> <li>■ Further update on ongoing preparatory work in support of the sale of the North American divisions.</li> <li>■ Further review of alternative strategic options in the event of prolonged market disruption</li> <li>■ Review of debt and equity market pre-conditions for sale of North American divisions</li> </ul>
	July	<ul style="list-style-type: none"> <li>■ North American insurance reserve – review</li> <li>■ Further detailed review of financial impact assessments of coronavirus, liquidity forecasting, debt covenant testing.</li> <li>■ Report from Audit Committee on work in support of the announcement of the final results for the year ended 31 March 2020, and ongoing work in support of the key disclosures in the latest draft of the Annual Report and Accounts.</li> <li>■ Detailed review (post Audit Committee) of going concern and viability statements and disclosures</li> <li>■ Approval of Final Results for the year-ended 31 March 2020 and Annual Report and Accounts</li> </ul>

### Meeting attendance between April and July 2020

	Scheduled meetings		Non-scheduled meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
<b>Board Director</b>				
<b>Chairman</b>				
David Martin <sup>1</sup>	1	1	4	4
<b>Executive Directors</b>				
Matthew Gregory	1	1	4	4
Ryan Mangold <sup>2</sup>	1	1	4	4
<b>Non-Executive Directors</b>				
Warwick Brady	1	1	4	3
Sally Cabrini <sup>3</sup>	1	1	4	4
Jimmy Groombridge <sup>4</sup>	0	0	4	4
Steve Gunning	1	1	4	4
Martha Poulter	1	1	4	4
David Robbie	1	1	4	4
Julia Steyn <sup>5</sup>	1	1	4	4

1 David Martin was appointed on 15 August 2019.

2 Ryan Mangold was appointed on 31 May 2019.

3 Sally Cabrini was appointed on 24 January 2020.

4 Jimmy Groombridge resigned on 29 June 2020.

5 Julia Steyn was appointed on 2 May 2019.

## Composition, succession and evaluation

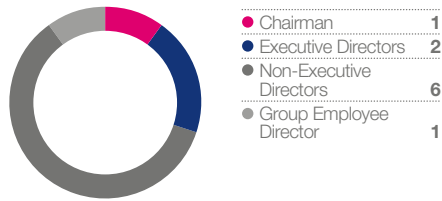
### Board balance

As at 31 March 2020 the Board comprised the Chairman, two Executive Directors, the Group Employee Director and six Non-Executive Directors. The balance of Directors on the Board ensures that no individual or small group of Directors can dominate the decision-making process.

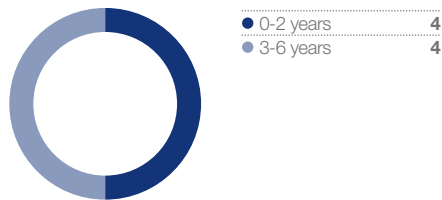
### Board independence

It is the Company's policy that at least half of the Board should be independent Non-Executive Directors. The Board carries out a review of the independence of its Non-Executive Directors on an annual basis. The Board considers each of its current Non-Executive Directors to be independent in character and judgement. In reaching its determination of independence, the Board has concluded that each Director provides objective challenge to management, is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate aims of the Company and there are no business or other relationships likely to affect, or which could appear to affect, their judgment. Being an employee of the Group, the Group Employee Director is not considered by the Board to be independent.

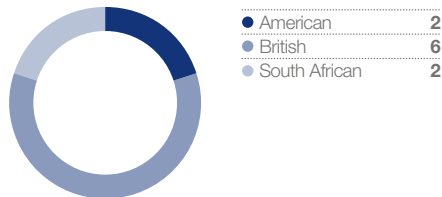
### Board balance



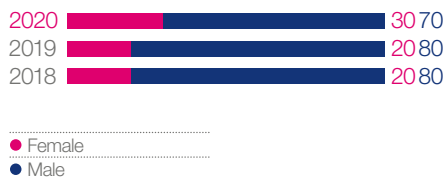
### Non-Executive Directors' tenure



### Board members by nationality



### Board members by gender diversity (%)



## Composition, succession and evaluation

### Board evaluation

The Board evaluation this year was carried out by Duncan Reed of Condign Board Consulting at the request of the Chairman following his appointment. Condign Board Consulting are independent consultants and had no prior connection with the Company. This was in addition to the internal review carried out in early 2019. The formal part of the external review was conducted in November and December last year. Duncan Reed observed the Board and Committee meetings held in November 2019 and presented his report to the Board at its meeting in January 2020.

The external review took place after a period of reflection following the requisitioning of a General Meeting in June 2019 by a major shareholder calling for changes on the Board.

The purpose of the review was to examine Board relationships, dynamics and its 'operating rhythm'. With the appointment of the Chairman and changes to the Board following the AGM it was acknowledged that this was an appropriate time to review the way the Board had operated in the past as a way of informing how it wanted to operate in the future and to make any necessary adjustments to its ways of working.

The Directors were unanimous in their view that the principal task for the new Chairman and the Board as a whole was to reassess the strategic, business and Board priorities, to agree the strategy with the executive team and help them execute it through ensuring they were supported by the right people and resources, and to assess the remaining businesses and help develop and test future

growth plans. During the exercise the Board was also asked to provide feedback to the Chairman to help him shape the Board's agenda.

It was acknowledged that more focused and directed challenge in key areas would be productive in helping to unlock change while also allowing a 're-set' of some of the relationships between the executives and the Board and clarifying roles and expectations. In terms of Board composition, it was recognised there was scope for change as and when demanded by normal rotation or significant change to the shape of the Group following the sale of the US divisions.

As with most board reviews, a number of process improvements were also identified, and these are summarised in the table below:

Area of focus	Recommended actions	Progress
Improve the information flows and timely receipt of Board papers	Avoid information 'bottlenecks' and more use of management reports between Board meetings	The process for Board paper preparation and send out is being reviewed. Since March the Board's own ways of working have had, by necessity, to become more agile and somewhat less process driven with all Board and Committee meetings occurring via video-conferencing. New meeting 'protocols' for virtual meetings were introduced to facilitate this. The Board has also increased the frequency of its meetings in order to stay up to date with the impact coronavirus was having on the Group and the mitigating actions put in place by the management team.
Continuous improvement in Board papers	Improving (where necessary) the quality, 'level' and volume of Board papers to allow open and constructive challenge to be made 'in context' and at the right time in response to the executive team's analysis of performance.	As part of supporting 'remote' working and to enable the Board to be kept up to date on the Group's response to coronavirus, it now receives more regular updates. The Board receives a weekly report from the Chief Executive and regular financial updates from the Chief Financial Officer.
Agenda planning	The forward agenda planner should be discussed at the end of the Board meetings, as part of a Non-Executive Director 'wash-up' session, and any feedback reflected in the planner to make the Board as agile as possible and that the executive team can respond to requests from the Board.	This has now been formalised as part of the Board's new ways of working. The weekly report referred to above also frees up time on the Board agenda.
Succession planning	There is a need for the Board to engage with management beyond the Chief Executive and the Chief Financial Officer.	The Board receives updates from the divisional leadership teams and at its meeting on 30 April 2020 received extensive briefings from each of the divisional heads on how coronavirus had affected their divisions and the measures taken to protect their businesses, employees and customers as well as the risks and opportunities they foresee as and when their businesses can start to ramp up again.
	Board succession and rotation plan will need to be prepared in contemplation of executing the portfolio rationalisation.	The portfolio rationalisation was 'paused' in the immediate aftermath of the coronavirus outbreak. Board succession and rotation planning will be reviewed and progressed at the appropriate time.

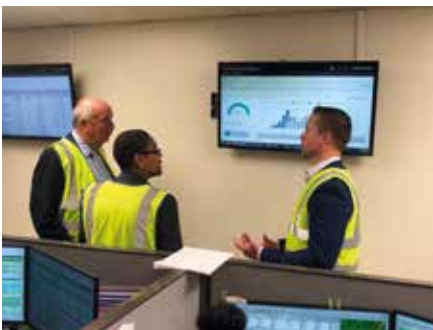
## Leadership and purpose

### Induction and development

On appointment, all new Directors receive a comprehensive and structured induction, tailored to their individual requirements. The induction programme, which is arranged by Company Secretariat, typically includes visits to the Group's businesses both in the UK and in the US and meetings with senior managers and advisers. The programme is designed to facilitate their understanding of the Group, the key drivers of business performance, the role of the Board and its Committees, and the Company's corporate governance practices and procedures as well as gaining an insight into operations within the business divisions. Company Secretariat also provide appropriate training materials and guidance as to their duties, responsibilities and liabilities as a director of a public limited company.

During the year, David Martin and Sally Cabrini participated in tailored induction programmes.

The pictures below show General Manager Luis Pacheco giving Chairman David Martin a tour of the Union New Jersey location and District Manager Steven Crossken showing Chairman David Martin On Time Performance tracking analytics at a First Transit location in New Jersey.



In February 2020 Sally Cabrini visited the old and new GWR depots in Exeter where she met the teams and experienced at first hand their commitment to safety. It was helpful for her to understand the operational challenges they faced on the old site.

Unfortunately planned visits to First Student and First Transit sites in New Jersey and Greyhound in Dallas in March 2020 were cancelled due to the outbreak of coronavirus.

### Information and support

The Company Secretary and the Deputy Company Secretary are responsible for advising the Board on all governance matters and for ensuring that Board procedures are followed, applicable rules and regulations are complied with and that due account is taken of relevant codes of best practice. Company Secretariat is also responsible for ensuring there are effective communication flows between the Board and its Committees, and between senior management and Non-Executive Directors.

All Directors receive papers and other relevant information on the business to be conducted at each Board or Committee meeting well in advance, usually a week before, and all Directors have direct access to senior management should they wish to receive additional information on any of the items for discussion. The head of each division attends Board meetings on a regular basis to ensure that the Board is properly informed about divisional performance and any current issues.

All Directors have access to the advice of the Company Secretary and, in appropriate circumstances, may obtain independent advice at the Company's expense.

The Company Secretary is Keith Hubber, who joined the Group in November 2019. Keith is secretary to the Nomination and Executive Committees, and his deputy, Silvana Glibota-Vigo, is secretary to the Audit, Remuneration, Board Safety and Executive Safety Committees.

### Workforce engagement

One of the key requirements of the revised Code is for boards to have in place mechanisms to ensure that they understand the views of the workforce. Many companies will have been establishing and reporting on those mechanisms for the first time this year.

FirstGroup has had an Employee Director on its Board since 1996 (and on the majority of the UK operating companies' boards since the founding of the Company). The role and responsibilities of the Group Employee Director (GED) are described on page 84. The GED is a member of the Board Safety Committee, has an open invitation to attend all other Committee meetings, and regularly attends the meetings of the Remuneration Committee.

Jimmy Groombridge was the GED until his resignation on 29 June 2020 at the end of his three-year term. The election process for his successor will take place over the summer. The nominated candidate/s will be considered by the Nomination Committee and the successful candidate will be recommended to the Board for appointment in September. An announcement will be made in due course.

## Responding to shareholder feedback

At last year's General Meeting and AGM a number of resolutions put to shareholders received 'significant votes against'. These are set out in the table below. On 25 June and 25 July 2019 respectively we announced the results of the General Meeting and the AGM and explained then the steps that would be taken to understand the reasons for shareholders' dissatisfaction. In November 2019 we wrote to the Investment Association (IA) and published the letter on our website. Our response is in the IA's public register.

The revised Code provides that when 20% or more of the votes cast against a Board recommendation for a resolution, the Company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. The Code also states that companies should publish an update on the views received from shareholders and the actions taken, and that the Board should provide a final summary in the annual report and accounts.

### Our response to shareholder feedback

When	What happened	How we responded
<b>25 June 2019</b> General Meeting	Activist shareholder Coast Capital (a 10% shareholder at the time) requisitioned a General Meeting and put forward resolutions seeking to remove six Directors and appoint seven of their nominees. Our Board's recommendation to shareholders was that they should vote against Coast Capital's resolutions. On average, shareholders voted more than four to one against Coast Capital's resolutions but there were several resolutions which received more than 20% shareholders' support, against the Board's recommendation.	We continued to meet extensively with shareholders after the General meetings as part of our ongoing programme of investor engagement. Wolfhart Hauser decided to step down as Chairman and in August the Board appointed David Martin as his successor. For more information see Nomination Committee report on page 96.
<b>25 July 2019</b> Annual General Meeting	<p><b>Remuneration Report</b> More than 20% of our shareholders voted against this resolution.</p> <p><b>Directors' re-election</b> More than 20% of our shareholders voted against the resolutions to re-appoint Imelda Walsh and Jim Winestock as Directors.</p> <p><b>Political donations</b> More than 20% of our shareholders voted against this resolution.</p>	<p>We continued to engage with our shareholders to understand the reasons for their voting decisions. We posted a clarification on our website to explain the rationale for our Chief Financial Officer's remuneration arrangements and highlighted the Remuneration Committee's track record of exercising discretion to reflect underlying performance. The Board and the Remuneration Committee are committed to keeping this issue under review and will take it into account in respect of future appointments. They will also continue their engagement and dialogue with shareholders and their representatives on this and other key remuneration matters.</p> <p>The Remuneration Committee welcomes shareholders' feedback, and this will help inform the work to develop a Remuneration Policy to be put to shareholders at the AGM in 2021. For more information see Directors' remuneration report on page 110.</p> <p>We continued to engage with our shareholders to understand the reasons for their voting decisions. We continue to assess and refresh our Board's composition. Since the AGM, two of our longest serving directors (Jim Winestock and Imelda Walsh) stepped down after having served on the Board for seven and five years respectively. We appointed Sally Cabrini to chair the Remuneration Committee in January 2020. In the last 18 months we have appointed four new Directors and a new Chairman. For more information see Nomination Committee report on page 96.</p> <p>We continued to engage with our shareholders to understand the reasons for their voting decisions. It is not the policy of the Company to make donations to political organisations or to incur other political expenditure and the Board has no intention of changing that policy. For more information see page 132.</p>



## Leadership and purpose continued

### Compliance with the Code and section 172 duties

The Board's confirmation of compliance with the provisions of the Code, as well as other compliance statements, is set out below. Details of how we applied the principles can be found on page 94. Further detail of shareholder engagement can be found on page 91.

#### Code compliance, section 172 and other compliance statements

Requirement	Board statement	Further information
Compliance with the 2018 UK Corporate Governance Code	The Directors consider that the Company has been compliant with the Code provisions as applied during the year ended 31 March 2020.	See Chairman's report on <a href="#">p76</a> See Corporate governance report on <a href="#">p82</a>
Section 172 (1) Companies Act 2006	The Board has always been focused on the duties owed by its Directors under this section of the Companies Act. This year has not been an exception and the Directors confirm that during the year they continued to promote the success of FirstGroup for the benefit of all stakeholders.	See Chairman's report on <a href="#">p76</a> See Our stakeholders on <a href="#">p44</a> See Corporate governance report on <a href="#">p82</a>
Going concern	Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the Group is exposed (including the material uncertainty referred to on page 72) the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the twelve-month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.	See Going concern statement <a href="#">p72</a> See Audit Committee report on <a href="#">p98</a>
Viability	Based on the results of the assessments outlined on page 72, including the scenario testing, the Directors confirm that, having regard to the principal risks and uncertainties currently facing the Group, and the material uncertainty in relation to going concern noted on page 73, and that the base case includes up to £700m of debt and £150m of equity issuance in the event that the sale of First Student and First Transit does not complete by March 2022, they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2023.	See Viability and prospects <a href="#">p69</a> See Audit Committee report on <a href="#">p99</a>
Robust assessment of principal and emerging risks facing the business – Code provision 28	The Board confirms that in making this statement it carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	See Principal risks and uncertainties on <a href="#">p59</a> See Audit Committee report on <a href="#">p98</a>
Annual review of systems of risk management and internal control	The Directors monitor the Group's systems of risk management and internal controls.	See Audit Committee report on <a href="#">p98</a>
Fair, balanced and understandable	The Directors have determined that this year's Annual Report, taken in its entirety, gives a fair, balanced and understandable view of the business's current position and provides stakeholders with the necessary information to fully assess the Group's current financial position and future prospects.	See Audit Committee report on <a href="#">p98</a>
Directors' responsibility – DGTR4.1.12R	The Directors confirm that to the best of their knowledge the financial statements have been prepared in line with all regulations applicable to FirstGroup.	See Directors' responsibility statement <a href="#">p134</a>
Audit information – section 418 (2) Companies Act 2006	The Directors confirm that the auditors have been provided with all relevant audit information.	See Directors' report and additional disclosures on <a href="#">p130</a>
Non-financial reporting – section 414C (7) Companies Act 2006	Each of the key areas of disclosure required is summarised on the tables in the Strategic report, where we also described our business model, and on our website.	See Strategic report on <a href="#">p4-74</a> See website <a href="http://www.firstgroupplc.com">www.firstgroupplc.com</a>
Payment Practices and Performance Reporting – 2017 regulations	The Directors confirm that they have complied with the legal requirement to report on supplier payment practices and policies for qualifying contracts.	See website <a href="http://www.firstgroupplc.com">www.firstgroupplc.com</a>

## Code compliance, section 172 and other compliance statements

Requirement	Board statement	Further information
Modern Slavery Statement – Modern Slavery Act 2015	In line with our Values and the expectations of our customers, FirstGroup is committed to conducting our relationships with integrity, high ethical and moral standards, and professionalism in all our activities. This includes the prevention of modern slavery and human trafficking in all its forms and extends to all business dealings and transactions in which we are involved, regardless of location or sector.	See website <a href="http://www.firstgroupplc.com">www.firstgroupplc.com</a>
Gender Pay Gap Report	FirstGroup is committed to making our workplaces inclusive for all our employees, regardless of their gender, age, ethnic origin or any other characteristic.	See website <a href="http://www.firstgroupplc.com">www.firstgroupplc.com</a>

### Culture

Company culture is monitored and assessed by the Board through a range of inputs, which are reflected on the table below. The Board takes seriously its responsibility for shaping and monitoring the corporate culture of the Group and remains committed to applying the

highest standards of corporate governance, recognising that robust governance and culture underpin business success. Following the changes introduced in the Code, we took the opportunity to refine some of our governance procedures, with particular focus on how we assess the Group's culture and how we embed the practices which best promote the

long-term success of the Group. In particular, our Group culture programme Be First is a direction and way of working aimed at creating sustainable change and building a positive cycle of performance throughout our Company. It is led by our leadership team and it should be embraced and adopted by every single employee in the Company.

## Reinforcing a healthy corporate culture

### Risk management

- Delegated to the Audit Committee and the Executive Committee.
- Risk appetite reviewed annually by the Board.

### Ethics and compliance

- Continued embedding of the Code of Ethics that was rolled out in 2018.
- Modern Slavery Statement reviewed and approved annually by the Board.
- Payment Practices Report.

### Employee engagement

- Group Employee Director sits on the Board.
- Employee Directors' Forum (EDF) meets in person twice yearly and monthly by other means.
- Group Employee Director reports to the Board regularly and after each EDF meeting.
- Your Voice survey run regularly and results reported to the Board.

### How the Board monitors culture

### Measuring our culture

- Your Voice survey runs regularly and results reported to the Board.
- Annual report by the Group Corporate Services Director.

### Remuneration and culture

- Delegated to the Remuneration Committee.
- Gender Pay Gap Report reviewed and approved annually by the Board.

### Company success

- Continuity of transport is essential to governments, local communities and customers and that remains front of mind in our decisions.
- Regular reports from the Chief Executive on performance.
- Divisional presentations at various times during the year.

## Leadership and purpose continued

### Compliance with the UK Corporate Governance Code

The Annual Report and Accounts for the year ended 31 March 2020 have been prepared in accordance with the Code published by the Financial Reporting Council (FRC) in 2018. The Code is available on the website of the FRC at [www.frc.org.uk](http://www.frc.org.uk)

We explain throughout this report how we applied the principles and complied with the provisions of the Code. For ease of reference, the table below summarises where the relevant information can be found:

Principles	Page reference	Focus areas this year
<p><b>1 Board leadership and company purpose</b></p> <p>In the sections listed to the right we explain the processes we put in place to support the Board in exercising its leadership and oversight roles.</p>	<p>Board of Directors <b>79</b></p> <p>Our stakeholders <b>44</b></p> <p>Activities of the Board <b>86</b></p> <p>Responding to shareholder feedback <b>91</b></p>	<ul style="list-style-type: none"> <li>■ Portfolio rationalisation strategy announcement</li> <li>■ Ongoing shareholder and stakeholder engagement</li> <li>■ Assessing and monitoring Company culture</li> </ul>
<p><b>2 Division of responsibilities</b></p> <p>In the sections listed to the right we describe the process the Company conducts to evaluate the Board to ensure that it continues to operate effectively, that individual Directors' contributions are appropriate and that the oversight of the Chairman promotes a culture of openness and constructive yet challenging debate.</p>	<p>Our governance framework <b>82</b></p> <p>Roles and responsibilities <b>84</b></p> <p>Activities of the Board <b>86</b></p> <p>Nomination Committee report <b>96</b></p> <p>Audit Committee report <b>98</b></p> <p>Board Safety Committee report <b>108</b></p> <p>Remuneration Committee activities <b>110</b></p>	<ul style="list-style-type: none"> <li>■ Changes to Board and Committee composition</li> <li>■ Board evaluation</li> <li>■ Review of matters reserved for the Board and Committees' terms of reference</li> </ul>
<p><b>3 Composition, succession and evaluation</b></p> <p>In the sections listed to the right we detail the skills, experience and knowledge of the existing Board members, we give information on the Board's appointment process and approach to succession planning as well as Board evaluation.</p>	<p>Board evaluation <b>89</b></p> <p>Nomination Committee report <b>96</b></p> <p>Board of Directors <b>79</b></p>	<ul style="list-style-type: none"> <li>■ Changes to Board and Committee composition</li> <li>■ External performance evaluation exercise</li> </ul>
<p><b>4 Audit, risk and internal control</b></p> <p>In the sections listed to the right we provide information on the policies and procedures the Group has in place to monitor the effectiveness of the Group's internal and external audit functions, and the integrity of the Group's financial statements, along with an overview of the procedures in place to manage risk and oversee the internal control framework.</p>	<p>Audit Committee report <b>98</b></p> <p>Principal risks and uncertainties <b>59</b></p>	<ul style="list-style-type: none"> <li>■ Oversight of emerging risks and mitigating actions in response to the coronavirus crisis</li> <li>■ Review of internal controls framework</li> <li>■ External audit tender and appointment of PwC</li> </ul>
<p><b>5 Remuneration</b></p> <p>In the section listed to the right we describe the Group's approach to Directors' remuneration, including the procedures for developing policy and the Remuneration Committee's discretion for authorising remuneration outcomes.</p>	<p>Responding to shareholder feedback <b>91</b></p> <p>Directors' remuneration report <b>110</b></p>	<ul style="list-style-type: none"> <li>■ Engagement with shareholders and leading up to and following the AGM</li> <li>■ Coronavirus response reflected in remuneration outcomes</li> <li>■ Increased focus on the use of discretion</li> </ul>

## Section 172 of the Companies Act 2006

The Directors are mindful of the duty they have under section 172 to promote the success of the Company over the long term for the benefit of shareholders as a whole, having regard to the interest of a range of other key stakeholders. In performance of its duties throughout the year, the Board has had regard to the interests of the Group's key stakeholders and taken account of the potential impact on these stakeholders of the decisions it has made. Details of the Board's engagement with stakeholders during the year, in compliance with section 172, can be found mainly in the Our stakeholders section on page 44. In addition, further information on how the Board had regard to the following matters in its decisions can be found here:

Likely long-term consequences	9
Interests of the Company's employees	48
Business relationships with suppliers and customers	52
Impact on the community and environment	51
Reputation for high standards of business conduct	52
Acting fairly between shareholders	46

### How our governance arrangements adapted to working in lockdown

Since 18 March 2020 the Group introduced remote working wherever possible for all office-based employees. The UK government introduced lockdown measures on 23 March 2020. On 16 March 2020 the Board cancelled a scheduled visit to New York where it had planned to hold its March Board meeting, visit operational sites in New Jersey and meet with the senior leadership teams from its US divisions. Instead of the scheduled Board meeting, the Board had its first 'virtual' Board meeting which focused on understanding the potential impacts which the spread of the coronavirus might have on the Group should it reach pandemic levels. On 23 March the Group issued an update to the markets on the impact the virus was already having on the Group and the immediate actions the Group was taking to manage the risks to passengers, employees and its operations.

Since the introduction of the lockdown, the Board was kept informed throughout and received weekly reports from the Chief Executive as well as more detailed briefings at its scheduled meetings. The Board itself had five virtual meetings between 22 March and 2 July to be brought up to speed on the business impact throughout the crisis, the introduction and impact of government support measures that were introduced and the output of financial modelling for assessing liquidity and covenant headroom under various scenarios. Attendance at meetings held between April and July 2020 during lockdown is shown on the table on page 87.

The Committees also met virtually (the Audit Committee and the Remuneration Committee on two occasions each, and the Board Safety Committee on one occasion). In addition, there were two virtual meetings in May and June 2020 of a special sub-committee set up to oversee the implementation of the portfolio rationalisation. Further details of the oversight provided by the Audit Committee on the actions taken by management to ensure the Company maintained adequate liquidity headroom through access to additional financing facilities and cost control management are set out in the Audit Committee report on page 98.

### Going Concern

In view of the uncertain outlook caused by the coronavirus, the Board gave careful and detailed consideration to whether it was appropriate to prepare the financial statements on a going concern basis. Further details of the Board's deliberations and the judgements and assumptions taken into account in reaching the conclusion that it was appropriate to do so are set out in full on page 72 – Going concern statement, page 69 – Prospects and viability and in the Audit Committee report on page 98.

### Annual General Meeting

The AGM this year will be held on 15 September 2020. To comply with public health and safety legal requirements currently in force, and in line with the recently introduced Corporate Insolvency and Governance Act, the AGM will be run as a closed meeting and it will not be possible for shareholders to attend in person (other than those designated as attending for the purposes of the quorum).

The Notice of AGM and other documentation are enclosed with this Annual Report or available on the website at [www.firstgroupplc.com](http://www.firstgroupplc.com) for those shareholders who have chosen to communicate with the Company by electronic means.

Shareholders who wish to ask a question of the Board relating to the business of the AGM can do so by submitting questions in advance of the AGM by email to [companysecretariat@firstgroup.com](mailto:companysecretariat@firstgroup.com). We will consider all questions received and, to the extent practicable, publish answers on our website.

The results of the voting will be announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting.

### Looking ahead to 2020/21

With the introduction of the revised Code, we have been able to reflect on our own governance framework and initiatives. Corporate culture, including safety and wellbeing, together with stakeholder engagement, will be areas of focus as we look forward to the year ahead.

The Board will also continue to focus on the Group's recovery from the coronavirus crisis and on the delivery of the portfolio rationalisation strategy.

## Nomination Committee report



**David Martin**  
Chair, Nomination Committee

**The Committee's key role is to ensure that the Board has the appropriate skills, knowledge and experience to operate effectively and deliver our strategy.**

The Committee is primarily responsible for leading the process for appointments to the Board and reviewing the composition of the Committees, ensuring that we have the right mix of skills and experience.

The Chief Executive attends meetings of the Committee upon invitation. Committee members take no part in any discussions concerning their own membership of the Board or appointment as a Chair of a Committee, but are involved in the recommendations on Committee membership changes. The General Counsel & Company Secretary acts as the Committee Secretary.

### Activities during the year

During the year, the Committee kept under review the balance of skills, experience, independence, knowledge and diversity (including gender), on the Board to ensure the orderly evolution of the membership of the Board and its Committees. In identifying and nominating candidates for approval by the Board, the Committee tried to ensure that the right people with the right range of skills and experience, specifically transportation and travel industry expertise, are on the Board and in senior management positions in the coming years.

### Summary of Committee activities during the year

#### May 2019

- Appointment of Julia Steyn as Non-Executive Director
- Appointment of Ryan Mangold as Chief Financial Officer
- Internal performance evaluation exercise

#### August 2019

- Appointment of David Martin as Chairman

#### November 2019

- External performance evaluation exercise

#### January 2020

- Appointment of Sally Cabrini as Non-Executive Director

### Appointment of Chairman

During the year we announced my appointment as Chairman of FirstGroup, succeeding Wolhart Hauser, who stepped down on 25 July 2019. Having followed a rigorous and formal process, and considered the views of our shareholders, the Committee, chaired at the time by David Robbie, recommended my appointment to the Board. Further detail on the process followed is shown on the following page.

### Recruitment of Non-Executive Director

When considering the recruitment of a new Director, the Committee adopts a formal, rigorous and transparent procedure with

### Membership and attendance as at 31 March 2020

Committee member	Meetings attended	Other Committees/Roles	Independent
Wolhart Hauser <sup>1</sup> (Chair until 25 July 2019)	2/2	Chairman	Yes, on appointment as Chairman <sup>1</sup>
David Robbie <sup>2</sup>	2/2	Senior Independent Director Chair of Audit Committee	Yes
David Martin <sup>3</sup> (Chair since 15 August 2019)	1/1	Chairman	Yes, on appointment as Chairman
Warwick Brady <sup>4</sup>	1/1	Audit Committee	Yes
Drummond Hall <sup>5</sup>	0/0	Senior Independent Director Remuneration Committee	Yes
Imelda Walsh <sup>6</sup>	3/3	Chair of Remuneration Committee Board Safety Committee	Yes
Jim Winestock <sup>7</sup>	2/2	Chair of Board Safety Committee Audit Committee	Yes

1 Wolhart Hauser stepped down on 25 July 2019.

2 David Robbie was Interim Chairman between 25 July and 15 August 2019. He joined the Committee as member on 5 November 2019.

3 David Martin was appointed on 15 August 2019.

4 Warwick Brady joined the Committee on 30 September 2019.

5 Drummond Hall stepped down on 31 May 2019.

6 Imelda Walsh stepped down on 14 February 2020.

7 Jim Winestock retired on 30 September 2019.

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## Chairman appointment process

### Candidate requirements

The Committee agreed a detailed candidate profile setting out the capabilities and experience required.

Process	Search	Interviews
The process to appoint a new Chairman, which started on 25 June 2019, was led by the Interim Chairman, with Russell Reynolds Associates (RRA) appointed to facilitate the process. The Committee as a whole was closely involved in identifying and agreeing a shortlist of candidates.	The Interim Chairman considered a full list of candidates with RRA. The full list was shared with the Committee, who also considered candidates put forward independently by Committee members. A shortlist of candidates to be invited for interview was agreed.	Following initial interviews with the Interim Chairman and a further review with Committee members, the number of candidates was reduced. The remaining Committee members met with the shortlisted candidates.

### New Chairman announced

Following their interviews, each Committee member provided feedback on the candidates to the Interim Chairman. The Committee discussed the relative merits of each candidate and agreed that David Martin should be recommended to the Board for appointment. The announcement was made on 15 August 2019.

due regard to diversity. Prior to making an appointment, the Committee evaluates the balance of skills, sector knowledge, independence, experience and diversity on the Board and, in light of this evaluation, prepares a full description of the role and capabilities required. In identifying suitable candidates, the Committee:

- uses open advertising or the services of external advisers to facilitate the search
- considers candidates on merit and against objective criteria ensuring that appointees have sufficient time to devote to the position, in light of other potential significant positions
- considers candidates from different genders and a wide range of backgrounds

Where the Committee appoints external advisers to facilitate the search, it ensures that the firm selected has signed up to the relevant industry codes (for example, on diversity) and has no connection with the Company.

Prior to the appointment of Sally Cabrini, the Committee ran a comprehensive and rigorous search, with a candidate profile and position specification drawn up. Global executive search SpencerStuart was engaged to assist with the selection process and conducted searches to identify suitable, qualified candidates. A number of interviews and meetings were held with shortlisted candidates. Sally's appointment was then recommended to the Board for approval as she fully met the criteria required. Sally joined the Board and the Remuneration Committee on 24 January 2020 and was appointed to the Board Safety Committee on 14 February 2020.

In line with provision 20 of the Code, the executive search firms engaged during the year (for the recruitment of David Martin and Sally Cabrini) had no other connection with the Company or the individual Directors.

### Other appointments

During the year, the Committee also considered and recommended to the Board the appointments of Julia Steyn as Non-Executive Director and Ryan Mangold as Chief Financial Officer. Both joined the Board in May 2019. We reported on the process followed for those appointments in last year's Annual Report.

Board appointments during the year have taken into account the outcomes of the Board evaluation exercises, internal and external, carried out during the year.

### Diversity

The Committee and the Board consider diversity as an important factor when reviewing the composition of the Board. The Committee views diversity in its wider sense, including gender, length of tenure, nationality and multiple-industry expertise.

The Board consists of Directors with a wide range of skills and experience drawn from a number of industries, including transportation, listed companies, accounting and employee representation, and which are vital for bringing both the expertise required and to enable different perspectives to be brought to Board and Committee discussions.

Furthermore, the Board comprises a range of nationalities, which brings cultural diversity as well as different geographical experiences and viewpoints. The combination of these factors means that the Board benefits from a diverse range of competencies, perspectives and thoughts, which provides a dynamic environment for decision-making.

The Board at 31 March 2020 was above its target of 25% female representation and slightly below the Hampton-Alexander Review target of 33% female representation by 2020. However, as at the date of this report female representation on the Board is now at 33%.

For the second year in a row we contributed to the FTSE Women Leaders review, which was published in November 2019. The report, available at [www.ftswomenleaders.com](http://www.ftswomenleaders.com), shows our data regarding women representation at Board level (30%) and at Executive Committee and its direct reports level (19.4%) at 30 June 2019. This is in compliance with provision 23 of the Code and we look forward to contributing again to the review later in 2020.

The Board remains of the opinion that appointments should be made on merit and relevant experience, against the criteria identified by the Committee. Future appointments to the Board must also complement the balance of skills the Board already possesses.

The Board recognises the need to create the conditions that foster talent and encourage more women and people from diverse backgrounds to achieve their full potential in their careers in the Group. The Committee is mindful of the Parker Review on ethnic diversity on the Board. In line with this, as part of an overall approach to HR management, there are policies and training programmes in place across the Group to promote and embed diversity and inclusion.

### Committee evaluation

The performance of the Committee was considered through the annual Board evaluation process, in which members were requested to complete an online questionnaire developed internally and were also asked by Condign Board Consulting to provide specific feedback by way of individual interviews. From the responses provided, it was confirmed that the Committee continued to operate effectively and that progress had been made in the year. Further information on the wider evaluation exercise is available on page 89 which, in line with provision 23 of the Code, describes that the evaluation of the Board was externally facilitated by Condign Board Consulting, and the outcomes and actions taken.

### Looking ahead to 2020/21

In the coming year, we will continue to monitor the needs of the Board and its Committees, with the aim of ensuring the Group's succession planning policy is aligned to, and evolves to meet, the ongoing business objectives and strategic goals of the Group.

### Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. Unfortunately it will not be possible this year to meet in person at the AGM but if you wish to discuss any aspect of this report, please contact the Committee Chair via the Committee Secretary by email at [companysecretariat@firstgroup.com](mailto:companysecretariat@firstgroup.com).

## Audit Committee report



**David Robbie**  
Chair, Audit Committee

**The Committee assisted the Board and management in taking rapid action to manage costs, preserve cash and protect the Group's financial position in response to the coronavirus crisis.**

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**Key activities during the year**

The Committee continued to play a key role within the FirstGroup governance framework in supporting the Board in matters relating to financial reporting, internal control and risk management. See page 82 for our governance framework.

Although the spread of the coronavirus only really started to have a material impact on the Group's activities in the last few weeks of the financial year, its impact was immediate and profound. The Committee's priority during that initial phase of the pandemic was to provide oversight of the Group's cash and liquidity position and the mitigating actions taken by management to stabilise the Group's financial position in the immediate aftermath of government actions in all our jurisdictions to implement lockdown arrangements and restrict the use of public transport.

Normal financial controls and governance processes had to adapt quickly to working in lockdown. Priorities shifted to refocus on cash preservation, cost saving measures and reducing non-essential capex and implementing and understanding the financial impact of various government financial support programmes made available to the Group, some of which were, as explained in the Financial review on page 28, agreed to have effect before the end of the Group's financial year. In addition, steps were taken to ensure that the Group could continue to operate an effective control environment despite the disruption to normal working practices.

The Group followed UK regulatory advice to extend the time available for full year reporting given widely publicised challenges facing all companies in completing their audits. As a result our year-end results were announced on 8 July, some six weeks later than originally anticipated.

During June and July, the Committee's priority was supporting the usual year-end processes, and overseeing the Group's liquidity needs and its longer term viability given the material uncertainties facing the Group at the time as governments in all jurisdictions started to ease lockdown arrangements and introduce measures designed to support the phased return of public transport services.

In order to provide shareholders with appropriate insight into the significant judgements and assumptions underlying the going concern and viability statements, this report covers the extended period from 1 April 2020 to 8 July 2020. It focuses primarily on the work the Committee has undertaken since March 2020 to support the Board in preparing the financial

statements on a going concern basis, recognising the material uncertainties faced.

Finally, as noted in last year's report, the Committee undertook a full audit tender process during the year to select a new audit firm to succeed Deloitte, who have been the Group's auditors since 1999. As a result, PwC was selected as the preferred firm and their appointment will be proposed at this year's AGM. The Committee is grateful to Deloitte for their work as External Auditor over a number of years and we look forward to working with PwC.

**Response to coronavirus**

Our operations were significantly affected towards the very end of the financial year. In order to ensure the provision of essential services continued during the pandemic, whilst maintaining the fundamentals of our business, the Committee supported the Board and management in taking rapid action in the form of:

- liquidity enhancement
- cash preservation actions
- cost control measures
- extending reporting timetable in recognition of challenges in completing audit work

Despite the near-term uncertainty, our long-term fundamentals remain sound and the Committee will continue to support the Board and management to ensure the Group emerges from this unprecedented situation in the most robust position possible.

Given the significant change to the operations and the majority of support staff working remotely and disruption to the wider workforce, the Committee has also ensured that a rigorous control environment was maintained and that expenditure controls in particular continued to operate robustly.

**Meetings during the year**

Following the decision to delay the announcement of the Group's results, the Committee met in June and July 2020 to oversee the year-end reporting and audit processes.

At its meetings between March and July 2020, the Committee, on behalf of the Board, provided oversight on the steps being taken by the management team to improve the Group's liquidity position in response to rapidly changing circumstances caused by the coronavirus pandemic. The steps taken by the management team included the decision to access the £300m under the CCFF, careful consideration of the liquidity headroom and scenario modelling, careful review of the status of the forecast debt financing covenants and

overall control of cost management and capex spend. The Committee was satisfied these steps appropriately mitigated the increased liquidity risk in the immediate aftermath of the coronavirus pandemic.

At its meetings in June and July 2020, the Committee reviewed and advised the Board on the Group's assessment of going concern and viability over a three-year period, and the current and potential future impact of the coronavirus pandemic. The Committee reviewed the scenario and liquidity models submitted to the Board in support of the viability and going concern statements and

reviewed these in light of the principal risks and material uncertainties facing the Group as a result of the coronavirus pandemic. The Committee was satisfied that the underlying assumptions and judgements and scenario planning used as the basis of preparation for the financial modelling to support the Board's assessments of the Group's longer-term viability were reasonable.

### Significant issues

Prior to each meeting of the Committee at which it is to be considered, management produces a paper providing details of any significant accounting, tax, compliance and

legal matters. Members of management are also invited to attend these meetings where further guidance is required. The Group's critical accounting judgements in applying the Group's accounting policies and key sources of estimation uncertainty are included within note 2 to the financial statements. The matters the Committee considers to be significant for the 2020 Annual Report are disclosed below and on page 100, noting that a number of new or redefined significant issues were identified as a result of coronavirus.

## Significant issues and judgements

## How the Audit Committee addressed these issues

### Coronavirus

Coronavirus had a material impact on the business from an operational level as well as how we execute our strategy. The Group acted swiftly to reduce costs, reduce uncommitted capital expenditure, restructure and reorganise the operating model including a vast majority of staff working from home, ensure the business had adequate liquidity for the short and medium term, ensure that all contractual and fiscal support measures and policies put in place by the respective governments have been applied, and ensure continuation of the essential services we operate were done in a safe manner in line with government policy.

The Committee received regular updates on progress throughout the coronavirus crisis and challenged and supported management to ensure all appropriate steps had been taken.

### Revenue recognition

Estimates are made on an ongoing basis when determining the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long-term service contracts. In addition, revenue recorded may be subject to manual adjustment to reflect the timing and valuation of revenue recognised, e.g. due to timing of travel or where amounts are unbilled at a period end. The various fiscal support measures announced in the second half of March 2020, of which several were formalised post balance sheet date, have been appropriately reflected in the financial statements. Significant judgement had to be exercised by management in finalising the accounts while several of these fiscal support measures were still being agreed or negotiated; hence there has been an estimation in the revenue recognition for the last weeks in March 2020 in certain cases.

The Committee reviewed the revenue recognition policies and procedures for the coronavirus fiscal support and challenged the appropriateness of such policies and recognition criteria. Regular forecasts are compiled on the outcome of these types of franchises and contracts to assess the reasonableness of the assumptions applied. It was concluded at the Committee meeting held in July 2020 that these policies and approach and their application were appropriate. Further detail on revenue recognition is provided in note 2 in the consolidated financial statements.

### Pensions assumptions and funding

The Group participates in a number of defined benefit pension schemes. Management exercises significant judgement when determining the assumptions used to value the pension liabilities as these are particularly sensitive to changes in the underlying assumptions. The UK Bus Pension scheme and LGPS April 2019 triennial valuations were completed in the current year and consideration was given to the agreement of the deficit repair. The LGPS is now in surplus and hence no further repair payments are required and the Bus Pension scheme has a deficit of £271m.

Management engaged with external experts and the Committee considered and challenged the assumptions used for estimating the liabilities. Sensitivity analysis was performed on the key assumptions: inflation, discount rate and mortality. The overall liabilities were assessed for reasonableness. Further detail on pensions is provided in note 36 in the consolidated financial statements. The deficit repair amount for the Bus Pension scheme was considered and agreed, including continuation of the parent company guarantee up to completion of the next triennial valuation expected in 2023.

### North America insurance

Provisions are measured using management's best estimate of the likely settlement of all known incidents based on actuarial valuations and due consideration of wider market conditions. A valuation of the expense required to settle these obligations and, where applicable, the discount rate used to calculate the expected settlement is also carried out. Following a rise in adverse settlements and developments on a number of aged insurance claims, against a backdrop of a harsher, plaintiff-friendly motor claims environment and adverse development factors, management decided to increase specific case reserves. The impact of these adverse developments was a charge of £141.3m.

The Committee reviewed the provision and challenged the assumptions used to calculate the liability. Independent actuarial expert advice on the adequacy of the provision against such liabilities is sought on a regular basis and benchmarked against alternative actuarial views, and the discount rate has been benchmarked against external data. The Committee agreed with management's view not to charge the items relating to the adverse developments in arriving at adjusted operating profit for the North American divisions because the adverse movement primarily related to the settlement of historic losses and in order to avoid distorting year-on-year comparisons for these businesses. The Committee considered this issue at its meetings in November 2019 and July 2020. Further detail on the assumptions used in determining the value is provided in note 4 in the consolidated financial statements.



## Audit Committee report continued

Significant issues and judgements	How the Audit Committee addressed these issues
<p><b>Going concern and viability</b></p> <p>The Group regularly prepares an assessment detailing available resources to support the going concern assumption and the long-term viability statements. The Group has been impacted significantly by the onset and spread of the coronavirus pandemic in the markets we operate. The consequences of the pandemic have meant more regular updates of the business forecasts and liquidity modelling and these remain under regular review as the markets we operate in respond to the crisis and how this impacts our ability to provide the essential services we operate. The medium-term impact of the pandemic on our businesses is not yet known, however we provide essential services to our customers and the communities we serve and anticipate doing so for the foreseeable future.</p>	<p>The Committee reviewed and challenged management’s funding forecasts and sensitivity analysis and the impact of various possible downside scenarios, which took account of the potential ongoing impact of the pandemic on passenger volumes, the availability and duration of fiscal support measures that might be made available beyond the period for which that support is currently being provided as well as the impact of Brexit and the Group’s underlying principal risks and uncertainties. Following the review, which the Committee carried out at its meeting in July 2020, the Committee recommended to the Board the adoption of both the going concern and viability statements for inclusion in this report, notwithstanding that material uncertainty exists that may cast significant doubt on the Group’s and the Company’s ability to continue as a going concern. The key risks giving rise to the material uncertainties in relation to going concern are set out on page 73.</p>
<p><b>Impairment testing</b></p> <p>Management exercises a significant amount of judgement during the impairment testing process as it is based on an estimation of future growth rates, cash flows and a suitable discount rate. Careful consideration has been given to the pace of recovery from the pandemic by division as well as the long-term growth rates. An impairment charge of £186.9m on the Greyhound cash-generating unit (CGU) has been recorded, reflecting poor trading performance pre-coronavirus, the impact of coronavirus in the short term as well as the higher discount rate.</p>	<p>The Committee considered and challenged the inputs for the impairment test models. The cash flow forecasts were reviewed alongside past performance and operational impacts to the business as a consequence of coronavirus. The discount rates were benchmarked against externally available data and were increased as a result of the pandemic by 0.2-0.4ppts. The long-term growth rate assumptions of 2.5-2.8% in First Student, First Transit and First Bus are in line with independent GDP forecasts for North America and the United Kingdom. Sensitivities to the model inputs for these divisions were also tested for reasonableness. In Greyhound, where impairment has been assessed on both a fair value less costs to sell basis and a value in use basis, the discount rate has been increased to 9.7% (2019: 8.3%) and the long term growth rate has been reduced to 1.0%, which is below GDP forecasts for North America. The fair value less costs to sell of Greyhound was lower than the carrying amount of £277.8m at March 2020 (2019: £295.4m) by £62.5m (2019: £85.2m excess). Further detail on impairment testing is provided in note 11 in the consolidated financial statements.</p>
<p><b>Non-GAAP measures</b></p> <p>The Committee regularly reviews items which management consider appropriate to adjust for in arriving at Group and divisional results in order to avoid distortions in year-on-year comparisons.</p>	<p>The Committee considered the treatment of the adjusting items as set out in note 4 to the consolidated financial statements and in July 2020 reached the conclusion that this treatment was appropriate. It was noted that the relationship with the organisation assisting with the cost saving programme had now ended. In addition, it was agreed that software amortisation costs should be charged to divisional results in arriving at adjusted operating profit with 2019 comparatives being restated for this change in treatment.</p>
<p><b>Rail accounting</b></p> <p>Prior to the coronavirus crisis and the introduction in Rail of the Emergency Measures Agreements (EMAs) with effect from 1 March 2020, the Committee regularly reviewed the progress of SWR and TPE that were previously operated under onerous contract provisions under IAS 17. The EMAs mean that all revenue and cost risk for the franchises have been passed back to the DfT for the duration of the EMAs which are currently due to expire on 20 September 2020. The consequences of the EMAs have retrospective effect from 1 March resulting in further complexity of profit recognition for all the franchises.</p>	<p>The Committee considered the accounting for Rail as a consequence of the EMAs in June and July 2020 and agreed with the treatment that was applied.</p>
<p><b>Strategy execution</b></p> <p>On 11 March 2020 the Group announced that the Board had commenced a formal process to sell the Group’s North American contract businesses, First Student and First Transit. A process for the sale of the Greyhound business was already underway. These sale processes were at various stages of execution prior to the advent of the pandemic. Consideration was given to the classification of the net assets in the financial statements, and whilst the Board remains fully committed to the sales process, the transactions are not sufficiently advanced to treat these assets as discontinued operations.</p>	<p>The Committee considered the accounting for First Student, First Transit and Greyhound at its meetings in June and July 2020 and agreed with the treatment that was applied.</p>

## Summary of Committee activities during the year

The Committee has an extensive agenda of items of business focusing on financial reporting; internal control, risk management and internal audit; and external audit within the business, which it deals with in conjunction with senior management, the External Auditor, the internal audit function and the finance team. In doing so, it ensures that high standards of financial governance, in line with the regulatory framework as well as market practice for audit committees going forward, are maintained. There were four scheduled meetings of the Committee during the year of reporting, one additional meeting in May 2019 and another one in July 2019 when the Committee met the shortlisted audit firms and made a recommendation to the Board.

The Committee:	May 2019	Sep 2019	Nov 2019	Mar 2020	Jun 2020	Jul 2020
<b>Financial reporting</b>						
reviewed the Group's final and half-yearly results, considered the significant accounting policies, principal estimates and accounting judgements used in their preparation, the transparency and clarity of disclosures within them, and compliance with financial reporting standards and governance	●		●		●	●
reviewed the matters which informed the Board's assessment that it was appropriate to prepare accounts on a going concern basis	●		●		●	●
reviewed the process for assessing the long-term viability of the Company	●					●
received reports from management and Deloitte on accounting, financial reporting regulation and taxation issues	●	●	●	●	●	●
reviewed reports from Deloitte on its final audit in respect of the year end and review of the half-yearly results prior to them being approved by the Board	●		●			●
reviewed and assessed the process by which the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy	●					●
<b>Internal control, risk management and internal audit</b>						
reviewed the structure and effectiveness of the Group's system of risk management and internal control and the disclosures made in the Annual Report and Accounts on this matter	●			●		●
reviewed the Group's risk management activities undertaken by the divisions and at Group level in order to identify, measure and assess the Group's principal and emerging risks and review the risk appetite statement, developed by management, for recommendation to the Board	●			●		●
reviewed the effectiveness of the Group's risk management framework, and reports arising from the risk management process	●			●		
approved the annual internal audit plan and reviewed reports from the internal audit department relating to control matters, monitored progress against the internal audit plan and any deviations to the plan were agreed	●	●	●	●		●
monitored and assessed the Group's insurance arrangements and material litigation matters (insured claims)		●		●		
considered reports from the General Counsel & Company Secretary on litigation matters		●		●		
<b>External audit</b>						
approved the terms of engagement of Deloitte, the fees paid to them and the scope of work they carried out	●		●			●
performed an annual review of the policies on the independence and objectivity of Deloitte, the use of Deloitte for non-audit services and the employment of former employees of Deloitte	●		●			●
reviewed the performance and effectiveness of Deloitte in respect of the previous financial year		●				
assessed the objectivity and independence of Deloitte	●					●
received reports on the findings of Deloitte during the half-yearly review and annual audit, and reviewed the recommendations made to management by Deloitte and management's responses		●		●		
reviewed the external audit plan				●	●	
reviewed letters of representation to Deloitte	●		●			●
recommended the re-appointment of Deloitte	●					
carried out the external audit tender and recommended the appointment of PwC	●	●				●
<b>Other matters</b>						
reviewed its terms of reference and the results of its performance evaluation, including effectiveness				●		
received reports from the Chief Executive and the CFO on the impact of the coronavirus crisis on the business				●	●	●
received reports from divisional and functional management on a range of financial, operational, risk management, legal and corporate governance matters	●	●	●	●		
received reports from the CIO on cyber security	●	●	●	●		●
received reports on matters raised on the confidential whistleblowing system and the process for the investigation of such matters, ensuring that the arrangements in place were appropriate for employees to confidentially raise concerns about possible legal, regulatory or other improprieties	●	●	●	●		●

## Audit Committee report continued

### Internal controls and risk management

During the year, the Committee carried out its duties in relation to the assessment and reporting of longer-term viability, risk management and internal control.

The Board is responsible for establishing a framework of prudent and effective controls, which enable risk to be assessed and managed. The Committee has established procedures to manage risk, oversee the internal control framework, and guides the Board on the nature and extent of the principal and emerging risks the Company should be willing to take in order to achieve its long-term strategic objectives.

Effective and ongoing monitoring and review of risk management and internal control frameworks are essential components of any sound system of risk management and internal control. On behalf of the Board, the Committee monitors the Company's risk management and internal control systems and carries out periodic reviews of their effectiveness, including the operation of financial, operational and compliance controls.

The process the Committee applied in reviewing the effectiveness of the system of risk management and internal control is set out below, together with a summary of the actions that have been or are being taken to improve the overall control environment.

#### Internal controls

In October 2019, the Committee asked the Internal Audit Group function to review the documentation supporting the disclosures made in the Annual Report relating to internal controls, including a description of the overall control environment, identification of material controls, financial risk assessment, and evidence of control testing, and prepare an action plan to address any identified gaps. This work was conducted with the assistance of an external advisor, and the team reported their findings in March 2020. The main findings were that:

- the Group has well-established processes and controls to help ensure the accuracy of the financial statements and financial disclosures made in the annual report. While a high level of documentation existed to substantiate the processes and controls performed, it could be more complete and could better articulate what were the key financial processes and key controls that addressed material financial risks.

- there was scope to improve the way certain activities related to the control environment, including financial risk assessment and control effectiveness testing, are evidenced and documented and the documentation could be expanded to include broader consideration of the entire population of key financial risks and related controls.

- other activities related to the control environment, including sign-off by management and details of the Board's delegated authorities, were adequately documented and evidenced.

A number of recommendations were made that would enhance the documentation of the Company's control environment and further demonstrate compliance with current requirements. These included financial risk assessment, better mapping of material controls, improving the documentation and evidencing of testing, and the assessments of effectiveness of controls. It was agreed that management would put in place steps to address the recommendations.

In the immediate aftermath of the coronavirus pandemic, the Internal Audit function maintained its focus on the evaluation of internal controls, including an audit of the Group's compliance with the period end financial controls. However, in light of the move to remote working, additional business critical support was provided to the business to ensure that internal controls could continue to operate effectively during lockdown. This support included:

- assisting the US division leadership teams to evaluate eligibility and accessibility of funding under the US Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Canada Emergency Wage Subsidy (CEWS), and organising the data required so that claims were appropriately substantiated, and ensuring filing deadlines were met;
- providing North America payroll support to review payroll adjustments made in the payroll systems, including layoffs, furloughs and reduced pay, to help ensure accuracy and consistency was maintained;
- supplementing Group Finance in support of year-end and external audit requirements;
- supporting the development, refinement and completion of P&L and cash flow models utilised by the North American divisions, to reflect the impact of the pandemic on insurance assumptions; and

- carrying out regular analysis in critical areas such as discretionary spending, payment process controls, use of contractors and other expenditure reviews to provide fortnightly assurance updates to the CFO that key controls remained effective while usual working arrangements were suspended during the pandemic.

Work also began on producing risk and control matrices to document the key controls for First Bus as part of the work agreed in March 2020 to improve the internal control environment in the division. Additional work was also undertaken to support back office analysis of retail transactions and expenses and the effectiveness of payroll.

Overall, the Committee is satisfied that the Group's internal control framework was operating effectively as at the year end and that, with the additional resources made available through the Internal Audit Group function, it continued to operate effectively during lockdown. The Committee has noted the review's conclusions that there is scope to further improve the degree of documentation and evidencing of existing controls and that overall testing of controls could also be improved. The Committee also noted the considerable, whilst not material, level of misstatements identified by Deloitte. The Committee challenged management in this respect and will continue to oversee the improvement programme that has been put in place to address these control issues.

#### Risk management

The Board, through the Committee, is responsible for determining the nature and extent of any significant risks the Group is willing to take in order to achieve its strategic objectives and for maintaining sound risk management and internal control systems to ensure that an appropriate culture is embedded throughout the Group. The Committee oversees a Group-wide system of risk management and internal control that identifies and enables management and the Board to evaluate and manage the Group's principal and emerging risks with a view to safeguarding the Group's stakeholders. This system is bespoke to the Company's particular needs and the risks to which it is exposed and is designed to manage, rather than eliminate, risk. Owing to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss.

The Committee assessed the Group's risk management methodology, which is used to identify and manage the principal and emerging risks, as well as the reporting and categorisation of Group risks, and made recommendations for improvement.

The Committee also reviewed the process for assessing the principal and emerging risks that could threaten the Company's business model, future performance, solvency or liquidity in order to make the long-term viability statement on page 69 and considered the appropriate period for which the Company was viable. Key external audit findings and management actions were discussed as well as reports on the outcomes of internal audit planned activities.

The Company's policies on financial risk management, including the Company's exposure to liquidity risk, credit risk and certain market-based risks including foreign exchange rates, interest rates and fuel prices, can be found in note 24 to the consolidated financial statements.

To assist in the identification and management of the Group's principal and emerging risks, the Committee, on behalf of the Board, has:

- established a risk management framework
- developed a system of regular reports from management
- overseen the risk management framework and the effectiveness of the Group's financial reporting, internal control and assurance systems
- established a number of Group-wide procedures, policies and standards
- set up a framework for reporting matters of significance

Key elements of the Group's risk management framework that operated throughout the year are:

- divisions identifying and reviewing their principal risks and controls for monitoring and managing risks, which are reviewed by senior executive management. The updated divisional and Group risk profiles, which are reviewed by the Chief Executive and Chief Financial Officer, are presented to the Executive Committee on a monthly basis

- an established methodology for ranking the level of risk in each of its business operations and the principal risk issues associated therewith
- implementation of appropriate strategies to deal with principal risks, including careful internal monitoring and ensuring external specialists are consulted where necessary
- a centrally co-ordinated internal audit programme to verify that policies and internal control procedures are being correctly implemented and to identify any risks at an early stage
- reviewing and monitoring the confidential reporting system to allow employees to raise concerns about possible legal, regulatory, financial reporting or any other improprieties
- a remuneration policy for executives that motivates them, without delivering excessive benefits or encouraging excessive risk-taking

Twice a year the Board is presented with an update for its assessment on the principal risks facing the Group, together with a risk map, highlighting any changes made since the previous update and the reasons for any changes. Each Committee that reports regularly to the Board provides an update on the status of risks considered within its remit.

#### Financial and business reporting

In its reporting to shareholders the Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. This responsibility encompasses all published information including, but not limited to: the year-end and half-yearly financial statements; regulatory news announcements; and other public information.

The quality of the Company's reporting is ensured by having in place procedures for the review of information by management. There are also strict procedures to determine who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 134.

The Group adopts a financial reporting and information system that complies with generally accepted accounting practice. The Group Finance Manual details the Group's accounting policies and procedures with which subsidiaries must comply. Budgets are prepared by subsidiary company management which are then consolidated into divisional budgets. These are subject to review by both senior management and the Executive Directors followed by formal approval by the Board. Regular forecast updates are completed during the year and compared against actions required. Each subsidiary unit prepares a monthly report of operating performance with a commentary on variances against budget and the prior year, which is reviewed by senior management. Similar reports are prepared at a Group level. Key performance indicators, both financial and operational, are monitored on a weekly basis. In addition, business units participate in strategic reviews, which include consideration of long-term financial projections and the evaluation of business alternatives.

Reviews of internal controls within operating units by internal audit have sometimes highlighted control weaknesses, which are discussed with management and, where appropriate, the Committee, and remedial action plans are agreed. Action plans are monitored by internal audit and, in some cases, follow up visits to the operating entity are conducted until such time as the controls that have been put in place are working effectively. No material losses, contingencies or uncertainties that would require disclosure in the Annual Report and Accounts have been identified during the year by this process.

The Committee, in conjunction with management, continually reviews and develops the internal control environment. No significant internal control failings were identified during the year. Where any gaps were identified, processes were put in place to address them and these are continually monitored. In addition, management intends to improve the standardisation and documentation of internal controls to give the Committee greater comfort around the effectiveness of the control environment.

The process is designed to provide assurance by way of cumulative assessment. It is a risk-based approach.

**Audit Committee report continued**

**Committee membership and attendance as at 31 March 2020**

Committee member	Meetings attended	Other Committees/Roles	Independent
David Robbie (Chair)	6/6	Senior Independent Director Remuneration Committee Nomination Committee Financial expert	Yes
Warwick Brady	6/6	Nomination Committee	Yes
Martha Poulter	6/6	Chair of Board Safety Committee	Yes
Jim Winestock <sup>1</sup>	4/4	Chair of Board Safety Committee Nomination Committee	Yes
Steve Gunning	6/6	Financial expert	Yes
Julia Steyn <sup>2</sup>	1/1	Remuneration Committee Financial expert	Yes

<sup>1</sup> Jim Winestock stepped down on 30 September 2019.

<sup>2</sup> Julia Steyn was appointed to the Committee in November 2019.

**Committee composition**

The Committee is comprised only of independent Non-Executive Directors (NEDs). It is chaired by David Robbie, who has recent and relevant financial experience and the requisite competence in accounting. The Committee as a whole has competence relevant to the sector, as disclosed on page 79. All members contribute to the work of the Committee and have the skills and necessary degree of financial literacy. As independent NEDs, during the year they had no hesitation in seeking clarification and a full explanation from management, the External Audit and the Internal Audit teams on any matter they felt necessary.

The composition of the Committee changed during the year with the retirement of Jim Winestock and the appointment of Julia Steyn. The Deputy Company Secretary continued to act as Committee Secretary.

**Additional meeting attendees**

Committee meetings are routinely attended by the Chairman, the Chief Executive, the Chief Financial Officer (CFO), the General Counsel & Company Secretary, the Director of Finance, the Internal Audit team, the Group Financial Controller and the External Audit team. In addition, the Committee also invites other senior finance and business managers to attend certain meetings. This allows the Committee to be given a deeper level of insight on certain business matters.

Other members of the Board, including the Group Employee Director, have an open invitation to attend Committee meetings and they normally did so during the year to gain insight to support their role as NEDs and Chairs and members of other Committees.

Throughout the year the Committee periodically met without management being present and also held separate private sessions with the Internal Audit and External Audit teams, allowing the Committee to discuss any issues in more detail directly.

These discussions helped shape thought processes and decision-making, and promoted a more rounded view of the Group, allowing the Committee to make meaningful interventions to quality beyond simply seeking management feedback and to challenge key judgemental areas.

**Internal audit**

The internal audit function advises management on the extent to which systems of internal control are adequate and effective to manage business risk, safeguard the Group's resources, and ensure compliance with the Group's policies and legal and regulatory requirements. It provides objective assurance on risk and controls to senior management, the Committee and the Board. Internal audit's work is focused on the Group's principal and emerging risks. The mandate and programme of work of the internal audit function is considered and approved by the Committee annually and includes a number of internal audits and health checks across the Group's divisions. Findings are reported to relevant operational management and to the Committee. The internal audit function follows up on the implementation of recommendations and reports on progress to senior management and to the Committee at each meeting.

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs including the ongoing audit reports received, the Committee's interaction with the function's head, an annual review of the function's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each Committee meeting as well as any other periodic quality reporting requested.

Taking all these elements into account, the Committee concluded that the internal audit function was an effective provider of assurance over the Company's risks and controls and appropriate resources were available as required.

### Auditor independence and objectivity

The independence of Deloitte, whose lead audit partner is Mark Mullins, is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Deloitte's independence and objectivity are safeguarded by a number of control measures which include:

- limiting the nature of non-audit services performed by the external auditor
- placing restrictions on the employment by the Group of certain employees of the external auditor
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure the Company remains compliant
- providing a confidential helpline that employees can use to report any concerns, including those relating to the relationship between Group employees and the external auditor
- the rotation of the lead auditor partner after five years
- independent reporting lines from the external auditor to the Committee and the opportunity to meet the Committee independently
- an annual review by the Committee of the policy in place to ensure the objectivity and independence of the external auditor is maintained
- the process for approving all non-audit work provided by Deloitte

A similar approach will be applied with regards to PricewaterhouseCoopers LLP (PwC), whose lead audit partner is Matt Mullins.

### Assessing the effectiveness of the external audit process

During 2018/19, the effectiveness and quality of the external audit process were reviewed by the Committee and the findings reported to the Board in September 2019.

The review involved an initial assessment of the delivery and performance of Deloitte against the external audit plan for the year. An annual assessment was then carried out by the Committee, taking into account the results of questionnaires completed by each of the divisions and Group management functions.

These questionnaires covered a variety of topics including the audit partners and team; the planning and execution of the audit approach; audit quality, and insights and added value provided by the audit process.

Feedback from the annual assessment was shared with Deloitte so that any areas for improvement could be followed up.

The Committee concluded that the external audit process carried out by Deloitte continued to be effective and satisfactory, and included the necessary degree of challenge to matters of significant audit risk and areas of management subjectivity.

The effectiveness of the external audit process for 2019/20 will be carried out in a similar way and reported in next year's Annual Report.

A similar approach will be applied with regards to PwC.

### Policy on the provision of non-audit services

The Committee's policy on the use of the external auditor for non-audit services includes the identification of non-audit services that may be provided and how, and those prohibited. The policy requires that non-audit services of the external auditor will only be used where the Group benefits in a cost-effective manner and the external auditor maintains the necessary degree of independence and objectivity. Twice a year the Committee is also provided with a report on all non-audit assignments awarded to the external auditor and a breakdown of non-audit fees incurred. The Committee is satisfied that the Company was compliant during the year with both the Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by Deloitte. Details of amounts paid to the external auditor for audit and non-audit services for the year ended 31 March 2020 are set out in note 6 to the consolidated financial statements. The policy is summarised on page 107.

### External audit tendering

PwC was selected to succeed Deloitte as the new external auditor for the year ended 31 March 2021 following a robust external audit tender process. The process was based on a clear election and assessment criteria, in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 (the Order). The appointment of PwC requires shareholder approval and will be proposed to shareholders at the 2020 AGM.

The diagram on the following page illustrates the process we followed and next steps.

### Treasury operations

The Committee has reviewed and recommended to the Board for approval a policy for the management of the risks from treasury operations and this is set out in more detail in note 24 to the consolidated financial statements. A Group Treasury Policy has been formulated and adopted to ensure compliance with best practice and to control and monitor effectively the risks attendant upon treasury and banking operations. In addition, the treasury committee approves decisions regarding fuel, foreign exchange and other matters reserved for its decision. Also, in response to the coronavirus crisis, short-term adjustments to hedging policy and credit risk management were recommended by the Committee and approved by the Board.

### Tax strategy

We believe we have a responsibility to manage our tax affairs in a way that sustainably benefits the customers and communities that we serve. We also have a responsibility to shareholders to ensure we pay the right amount of tax and ensure compliance with the tax rules in each country in which we operate. Our tax strategy was reviewed by the Committee and approved by the Board in September 2019. It is available on our website. The tax strategy is reviewed annually by the Committee, who receives regular updates on taxation matters and reports to the Board accordingly.

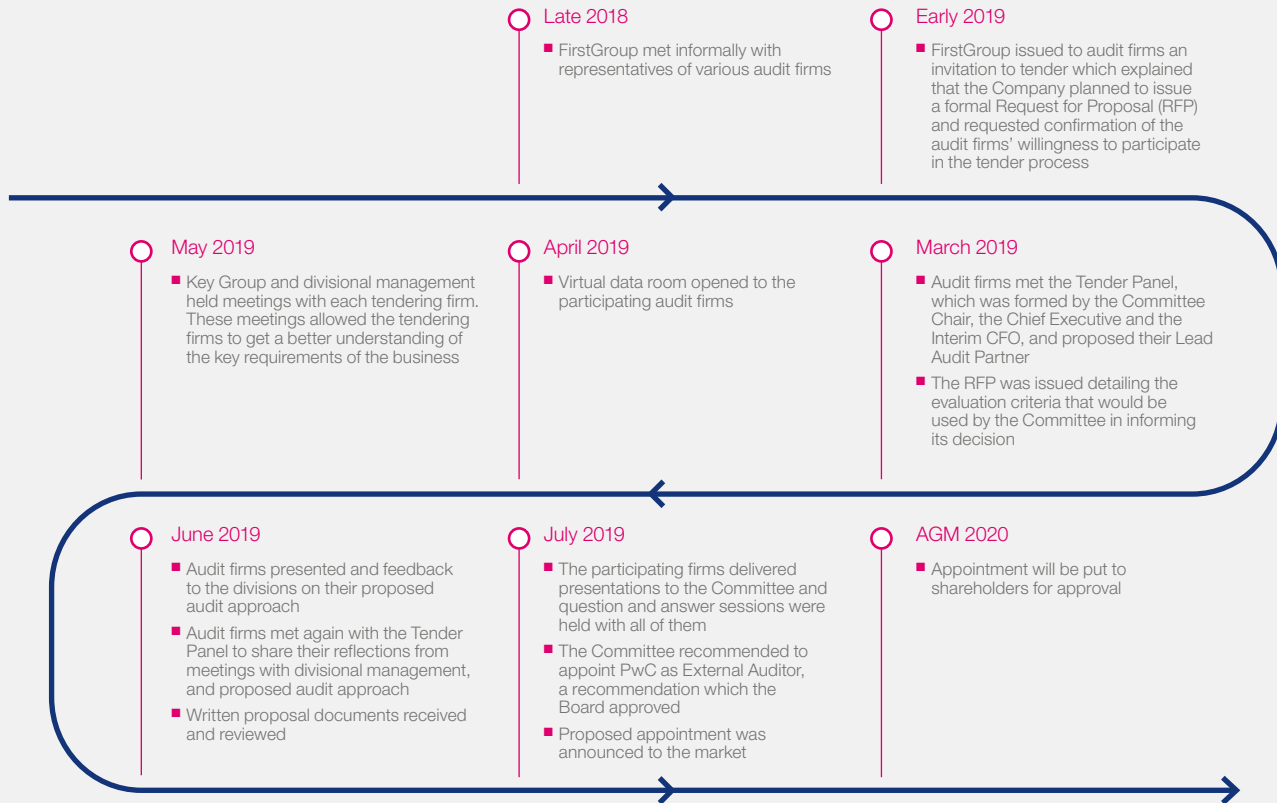
## Audit Committee report continued

### The external audit tender process

The external audit tender process was overseen by the Committee. A series of reports and updates were provided to the Committee in preparation and to monitor progress. The firms requested to tender were chosen having given proper regard to the complexity of the Group, with the tender completed by highly capable and experienced audit firms with strong track records and technical expertise.

The tender was open to audit firms outside the Big Four. Deloitte was not invited to tender having been the Group's auditors since 1999.

#### Key milestones of the external audit tender process



#### Audit transitional plans

The proposed External Auditor, PwC, is currently undertaking activity in preparation for the external audit of FirstGroup for the 2021 audit cycle. This will aid a smooth transition and allow PwC to embark on the 2021 audit as well prepared as possible.

#### This activity includes:

- A review of its non-audit services provided to FirstGroup and the necessary steps to ensure auditor independence
- Liaising with Deloitte during the 2020 audit cycle, including shadowing at key audit meetings
- Meetings with key members of the FirstGroup senior management team at Group and divisional level

PwC will complete the review of the half-year results and audit for the full year ending 31 March 2021.

The Committee will monitor the transition of the auditor throughout the year to ensure the effectiveness and independence of PwC.

The Board will seek approval for PwC to be appointed as External Auditor at the 2020 AGM for the year ending 31 March 2021.

## Policy on the provision of non-audit services

The policy was reviewed and updated by the Committee in March 2020. Summary below:

Fee categories	Fees for other services			Audit fee
	Permitted services	Prohibited services	Statutory and audit-related services	n/a
Examples of other services	Projects or engagements where the external auditor is best placed to perform the work due to their network and knowledge of the business or experience and market leadership in a particular area  Subject to cap of 70% of the average total audit fee paid across the three prior consecutive financial periods	Not subject to 70% cap	Projects that are not to be performed by the external auditor because they would represent a threat to the independence of the audit team	Projects or engagements where the external auditor is best placed to perform the work as it is clearly audit related
	Formalities relating to shareholder circulars and other regulatory reports  Professional training	Work required by law or regulation  Reporting required by a competent authority or regulator  Reporting on internal financial controls  Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports	Tax, payroll, HR, legal, valuation and actuarial services  Management or decision-making consultancy  Bookkeeping and preparing accounting records and financial statements  Internal control or risk management procedures, internal audit outsourcing services  Corporate financial, restructuring or transaction related services	Review of half-yearly and other interim financial information  Advice on correct accounting treatment of proposed transactions  Reporting on regulatory returns
Roles and responsibilities			↑ ⋮	↑ ⋮
CFO	Approval needed before work starts	Consultation and oversight	n/a	Pre-approved as part of the approval of the annual audit fee
Audit Committee	Approval needed from the Committee Chair if services likely to cost more than £125,000  Consider if tender should be conducted			Negotiation and recommendation  Review and approval, including annual review of external auditor independence

### Committee effectiveness review

The Committee undertakes an annual evaluation of its performance and effectiveness.

For 2019/20, internal and external evaluation exercises were conducted.

More information on the external exercise can be found on page 89.

Both reviews concluded that the Committee had performed effectively.

In order for its members to continue to develop their technical knowledge, in January 2020 Deloitte facilitated a training session on corporate governance developments and the First Rail team presented on rail accounting.

### Looking ahead to 2020/21

The Committee will remain focused on the audit and assurance processes within the business, and maintain its oversight of financial and other regulatory requirements.

As well as the regular cycle that the Committee schedules for consideration each year, it is planned over the next twelve months to:

- monitor the impact of the coronavirus crisis on the business
- oversee the transition from Deloitte to PwC
- support the strengthening of the Company's risk management and internal controls system
- commission an external review of the quality and effectiveness of the internal audit function

- consider the impact of proposed audit industry changes

### Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. Unfortunately it will not be possible this year to meet in person at the AGM but if you wish to discuss any aspect of this report, please contact the Committee Chair via the Committee Secretary by email at [companysecretariat@firstgroup.com](mailto:companysecretariat@firstgroup.com).



## Board Safety Committee report



**Martha Poulter**  
Chair, Board Safety Committee

**The Group's commitment to safety is unwavering. As one of our Values, safety is always front of mind and we commend everybody across the organisation for their dedication and commitment throughout these most challenging times.**

### Coronavirus response

In line with the established role and responsibilities of the Committee, we have this year supported management with the Group's response to the coronavirus pandemic.

Public transport has played a critical role in keeping essential workers moving during the crisis, and the Group's well embedded safety culture and emergency response processes have been pivotal in ensuring the continued safe and effective delivery of services throughout this time.

Furthermore, the Group's Be Safe programme, which the Committee reviewed this year, has provided a strong and consistent foundation of behavioural safety management, with its continued emphasis on making safety a personal core value for every employee.

In addition to the Group's robust safety systems and behaviours, additional measures have been implemented to help limit, as far as we possibly can, the spread of coronavirus. Detailed information on these measures can be found in the Safety section on page 42.

Throughout the pandemic, the Group has continued to drive industry collaboration and innovation on safety technology, protocols and practices, for example bringing antiviral and disinfectant products to trial quickly and effectively. At UK level this sector-leading work has included collaboration with DfT, RDG and CPT, and in the US through APTA, NSTA, and the National Safety Council, of which Brad Thomas, President of First Transit, became a Board member this year.

The Group's commitment to safety is unwavering. As one of our Values, safety

is always front of mind, and we commend everybody across the organisation for their dedication and commitment to safety throughout these most challenging times.

### Safety governance

The overall structure of FirstGroup's safety governance represents a balance between delegated decision-making to the five divisions, whilst retaining strategic direction, oversight and challenge from the Board.

It is the responsibility of the Committee to promote a positive safety culture throughout the Group and to report back to the Board on safety trends, actions and other deliberations.

The Group's approach to safety governance is characterised by:

- the Committee overseeing material safety matters and risks across the Group, as well as reviewing targets in respect of safety performance
- management of the operating companies having primary responsibility for the design and implementation of an effective safety management system and accountability for safety performance
- the Group's safety function providing advice to the divisions directly and through a series of networks across the Group

### Committee operations

The Committee meets at least three times a year and the Deputy Company Secretary acts as Committee Secretary. It is supported by the Executive Safety Committee (ESC), which is chaired by the Chief Executive, and meets every two months.

### Membership and attendance as at 31 March 2020

Committee member	Meetings attended	Other Committees/Roles	Independent
Martha Poulter (Chair from 1 October 2019)	1/1	Audit Committee	Yes
Jim Winestock <sup>1</sup> (Chair until 30 September 2019)	2/2	Audit Committee Nomination Committee	Yes
Jimmy Groombridge <sup>2</sup>	3/3	Group Employee Director	No
Imelda Walsh <sup>3</sup>	3/3	Chair of Remuneration Committee (until 24 January 2020) Nomination Committee	Yes
Sally Cabrini <sup>4</sup>	0/0	Chair of Remuneration Committee (from 24 January 2020)	Yes

1 Jim Winestock retired as a Non-Executive Director on 30 September 2019.

2 Jimmy Groombridge resigned on 29 June 2020.

3 Imelda Walsh stepped down from the Board on 14 February 2020.

4 Sally Cabrini was appointed as a Non-Executive Director on 24 January 2020 and joined the Committee on 14 February 2020. She attended her first meeting as a member in May 2020.

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## Summary of Committee activities during the year

### At every meeting

- Safety performance at the Group and divisional level
- Key safety initiatives
- Legislation and best practice
- Management's report from the Executive Safety Committee and Business Review Meetings with each division
- Lessons learnt and steps taken following significant incidents
- Divisional presentations on a rotational basis, covering safety considerations, performance and plans

### May 2019

- Divisional presentation – First Rail
- Review of divisional and Group safety targets and approval of performance objectives

### September 2019

- Divisional presentation – First Transit
- Review of the results of the Committee evaluation process, which was carried out internally for the year 2019/20. This review confirmed that the Committee continued to operate effectively, as did the externally facilitated exercise commissioned by the Chairman upon appointment. Further information is available on page 89.

### January 2020

- Divisional presentation – First Bus
- Be Safe programme review

The ESC oversees the Group's safety strategy and the performance, procedures and practices of the divisions and operating companies. The ESC takes a proactive approach to improving safety performance, and undertakes in-depth analysis and reviews of specific topics to understand root causes, share best practice and inform safety interventions, which it then reports to the Committee.

The Committee has an extensive annual agenda which includes detailed presentations by each division on a rotational basis. The divisions base their presentations on the wider operational landscape, and their safety performance and plans.

In January, reflecting the Group's open safety culture, the Committee conducted a full appraisal of the Be Safe programme, which had commenced in 2015. Following this work, the Committee believes that Be Safe should continue as the Group's strategic safety programme, building on rules and process compliance with behavioural safety to embed safety as a personal core value for every employee. Key successes of the Be Safe programme were highlighted within the review and will continue to be built upon, with other areas identified for reinforcement.

Across all five divisions, targeted biannual assurance reviews of safety management systems, improvements and performance take place. The Group uses data analysis and insights to prioritise efforts in improving safety through both technology and behaviour change.

The table to the left summarises the activities and themes during the year.

### Safety performance

The Committee observed improvement in a number of key safety metrics this year across the Group.

Employee lost time injuries reduced by 12%, with employee major injuries down significantly at 18% lower than last year. Total employee injuries reduced by 4%.

Collisions with injury reduced by 5% and passenger injuries per million miles reduced by 3%, primarily driven by safety performance improvements in First Bus and First Rail.

### Looking ahead to 2020/21

The Committee will continue to review the Group's response to coronavirus during the gradual lifting of lockdowns, including safety implications and mitigations, working practices and employee wellbeing.

The Committee will also keep under review the Group's safety strategy, procedures and systems in order to further enhance safety performance. In doing so, the Committee will focus on:

- The Group's safety approach to coronavirus
- Divisional reviews (following our rotational schedule)
- Wellbeing programmes
- Security, emergency response and business continuity
- Technology uses to improve safety.

### Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. Unfortunately it will not be possible this year to meet in person at the AGM but if you wish to discuss any aspect of this report, please contact the Committee Chair via the Committee Secretary by email at [companysecretariat@firstgroup.com](mailto:companysecretariat@firstgroup.com).

### Role and responsibilities

- Keep under review the development and maintenance of a framework of policies and standards for managing safety risks and their impact on the Group's activities
- Assess the impact of safety decisions and actions taken by the Group on its reputation, employees and other stakeholders
- Monitor and assess the commitment and behaviour of management towards safety-related risks
- Review safety performance and significant safety incidents, considering the key causes thereof and ensuring actions are taken and communications made by management to prevent similar incidents occurring in the future
- Make proposals to the Remuneration Committee regarding appropriate safety performance objectives for Executive Directors and certain senior managers
- Review the findings of internal or external reports on the Group's safety, assessing any strategies and action plans developed by management in response to issues raised and, where appropriate, making recommendations to the Board on such matters

## Statement by the Chair of the Remuneration Committee



**Sally Cabrini**  
Chair, Remuneration Committee

**The backdrop of this year’s results and the experience of the Company’s stakeholders have framed the Committee’s decisions and the reward outcomes for the Executive Directors.**

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**Dear Shareholder**

I am pleased to present the Directors’ remuneration report for the financial year ended 31 March 2020, my first as the Remuneration Committee Chair of FirstGroup. I would like to thank Imelda Walsh for her hard work and dedication as Chair of the Remuneration Committee over the past five years.

This report is split into:

- i. This Annual Statement
- ii. An ‘at a glance’ summary of the remuneration decisions made during the year as well as a summary of the Remuneration Policy (“the Policy”) approved by our shareholders at the 2018 AGM
- iii. The Annual Remuneration Report on the implementation of the Policy in the year ended 31 March 2020 and proposed implementation for the next financial year.

**Impact of Coronavirus**

Firstly, I want to address the rapid escalation of the coronavirus outbreak and its impact on all of the Group’s stakeholders in the final weeks of the year. As noted in the Chief Executive’s report, our priority since the start of the outbreak has been the health and safety of our employees, passengers and communities while our operations, which are part of the critical infrastructure providing essential transportation services, have enabled key workers to travel to their destinations and perform their vitally important roles.

It is important to recognise our employees for their significant contribution. Their collective efforts have enabled us to deliver the continuity of transport that is so essential to governments, local communities and our customers. In addition, our local knowledge and platforms at the heart of our communities have allowed us to provide further support and assistance during this challenging time through delivering medical supplies, providing free transport for frontline workers and utilising space for community initiatives such as food banks.

Although we saw no significant effect on our businesses until the final three weeks of the 2019/20 financial year, the rapid and substantial fall in passenger numbers at that point meant that the Group had to quickly take decisive action to protect our ability to maintain critical services while travel restrictions were at their most comprehensive and while ensuring we would be in a position to rapidly increase capacity once appropriate. This has included steps to reduce costs and preserve cash, the utilisation of emergency measures announced by the Government as well as a number of difficult but necessary decisions to permanently reduce headcount in some areas.

**Performance of FirstGroup in 2019/20**

The coronavirus pandemic inevitably affected the Group’s financial results because March is traditionally a significant trading period, with all divisions normally operating at near-full capacity. Up to that point the Group had been making good progress in executing the clear commercial strategies in each division. This included good bid seasons in both First Student and First Transit. First Student delivered a new record customer satisfaction score in the year, reflecting the strength of their relationships with their stakeholders. As noted in the Chief Executive’s report on page 9, a number of important steps were taken in First Bus to move us to the forefront of the industry in terms of both technology and customer experience and we were awarded the West Coast Partnership rail franchise as well as a further three-year contract to operate Great Western Railway. The overall trading performance saw revenue increase by 7.2% in constant currency. On the same basis, adjusted operating profit decreased by 20.1% with adjusted EPS falling by 49.6% reflecting the negative impact to our operations in March.

## Remuneration paid in respect of 2019/20

When considering payments to our Executive Directors for the 2019/20 financial year, the Committee took into account a number of reference points including performance against the pre-determined incentive targets, as well as underlying financial performance to ensure any payments would be appropriate in the context of the shareholder experience. In line with our usual approach, we also considered the overall experience of the Company's other stakeholders including customers, employees and the communities we operate in and sought to reflect these either in specific incentive measures (e.g. customer satisfaction and safety) or as part of the holistic assessment of overall Group performance to ensure the Company's environmental, societal and governance impact is taken into account when determining pay. The impact of coronavirus on all the Group's stakeholders has also informed the approach to executive pay.

- Salary and fee reductions – the Chief Executive, Chief Financial Officer, Chairman and Non-Executive Directors voluntarily reduced their salary / fees by 20% from 1 April 2020. A wider group of senior employees across the Group have also made voluntary salary reductions and deferrals. The 2020/21 salary review for the whole Company has been deferred until later in the year (from the usual date of 1 April).
- EABP in respect of 2019/20 – 75% of the 2019/20 annual bonus was based on financial performance (45% adjusted operating profit, 20% revenue and 10% cash flow) and the remaining 25% based on non-financial performance (15% personal performance, 5% safety and 5% customer satisfaction). Performance against the financial measures was mixed, with results exceeding the threshold target for revenue, and cash flow coming in above the maximum target for the 2019/20 year. This was set against a year-on-year fall in adjusted operating profit. There was strong performance in respect of the non-financial measures relating to safety and customer satisfaction. It was encouraging to be able to report that lost

time injuries across the Group reduced by 12%, with employee major injuries reducing by 18% this year. Collisions with injury were also down by 5% and passenger injuries reduced by 3%. The overall severity of injuries has also reduced, with major injuries significantly lower against the prior year. This reflects the ongoing efforts and focus of our employees at all levels of the organisation on everyday safety procedures, and commitment to the goal of zero harm. Similarly customer satisfaction measures saw improvement, particularly in First Student and Greyhound.

The Committee recognises the strong contribution of the Executive Directors during 2019/20, and also the swift and decisive actions taken to mitigate the impact of the global pandemic and protect the Group for the long term. Notwithstanding this, the Committee and the Executive Directors were in full agreement that – given the impact of coronavirus on the Group's wider stakeholders – it would not be appropriate to pay a bonus to the Executive Directors and Executive Committee at this time. Therefore no bonuses will be paid to the Chief Executive, Chief Financial Officer and the senior management team in respect of the 2019/20 financial year. Full details on the relevant targets and performance achieved are set out on pages 121 and 122 of the Annual Report on Remuneration.

- 2017 LTIP – The vesting of the 2017 LTIP award was subject to three performance measures: 40% EPS, 20% Road ROCE and 40% relative TSR. The Company's performance was above median for the TSR measure, resulting in 30% vesting under this element of the award, 12% of the maximum available. The Committee carefully reviewed this in the context of the underlying performance of the Group and were satisfied with this level of vesting. The shares will be held for an additional two years to provide alignment with our shareholders. Ryan Mangold participated in the LTIP from appointment in 2019/20 and therefore had no 2017 award.
- IFRS 16 – As explained in last year's report the performance targets for the 2019/20 EABP and the 2017, 2018 and 2019 LTIPs were set on a pre-IFRS 16 basis. A reconciliation between the performance outcomes on an IFRS 16 and an IAS 17 basis is included in the relevant sections of this report (and will continue to be provided in future reports).

## Key activities during the year

### 2019 May

Assessed the level of achievement under the 2018/19 EABP

Determined the vesting outcome of the 2016 LTIP

Reviewed and approved the 2019 Directors' Remuneration Report

### July

Approved the 2019 LTIP awards

### November

Reviewed and approved changes to the remuneration structure for the North American contract businesses

### 2020

#### January

Considered the remuneration implications of the portfolio rationalisation strategy for the North American contract businesses

#### March

Reviewed the 2019 Gender Pay Gap reporting ahead of publication

Reviewed and amended the terms of reference

# Statement by the Chair of the Remuneration Committee

continued

### Remuneration for 2020/21

As we look ahead, there are many uncertainties which create a range of potential scenarios for our businesses to consider as our local markets in North America and the UK emerge from the lockdown. However there remains a fundamental need for our services, which help people to travel safely and conveniently for business, education, social or recreational reasons and will be essential to restoring sustainable and thriving economies and communities once the present crisis is overcome. The Group's intention to rationalise the Group's portfolio of businesses through the sale of the North American divisions at the earliest appropriate time is unchanged

In line with established best practice we were planning to provide prospective disclosure of our 2020 LTIP targets in this year's Report. Given the exceptional circumstances, the Committee has decided to delay 2020 LTIP grants and target setting to allow us adequate time to better understand the impact of coronavirus on the wider economy and our business. We expect to provide full details of the targets in the regulatory announcement when awards are made, as well as in next year's Remuneration Report. As usual, the annual bonus measures and targets will be disclosed in next year's Report with at least half being based on the financial performance of the Group in line with our Policy. We anticipate that maximum award levels will be in line with our shareholder approved Policy and implementation over recent years.

### Payment to past Director

The Committee fully recognises the severity of the Croydon tram incident in November 2016 and our deepest condolences go to all those affected. No annual bonus payment was made for 2016/17 to Tim O'Toole, the then Chief Executive, with that element of his remuneration being replaced by a conditional deferred share award. Under the terms of that award, the Committee was obliged to consider the vesting of the 2016/17 deferred share award as soon as practicable after 31 March 2020. Based on the information available at that time, and having taken independent legal advice, the Committee concluded that there was no basis on which to withhold or reduce the award. Full details are provided on page 122.

### Directorate changes

David Martin was appointed to the Board and became Chairman on 15 August 2019 on a fee of £310,000. This was an increase of 2.5% p.a. on his predecessor's fee, recognising that the Chairman's fee had not been reviewed since 2017.

### Governance

The Committee actively monitors developments in corporate governance and the guidelines produced by shareholders and their representative bodies. While we had already made a number of early changes to move towards compliance with the 2018 Code and the new regulatory requirements, we have taken further steps for 2019/20 including disclosure of the CEO pay ratio. We will review the Policy over the course of 2020/21, prior to seeking shareholder approval at the 2021 AGM. This review will include the adoption of post-employment shareholding guidelines.

We welcome the changes made to broaden the Remuneration Committee's remit to ensure pay decisions for Directors are made in the context of wider pay decisions across the Group. Our Group Employee Director has an open invitation to attend all Committee meetings, and regularly attends, and we have provided further details on our approach to pay throughout the Group on pages 116 and 117.

### In conclusion

We will continue to monitor governance developments and are committed to maintaining an open and transparent dialogue with our shareholders on executive remuneration. We consider ongoing engagement to be vital in ensuring that our approach to remuneration continues to be aligned with the long-term interests of the Group's shareholders and wider stakeholders. We welcome the feedback received during the year and hope to receive your support at our upcoming AGM.

### Sally Cabrini

Chair, Remuneration Committee

# Remuneration Policy at a glance

## Key Remuneration Principles



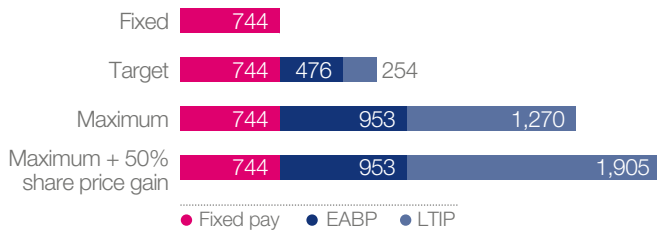
### Total remuneration opportunity at various levels of performance

The charts below illustrate the total remuneration opportunity provided to each Executive Director at different levels of performance for the 2020/21 financial year.

The Committee believes it is important that the approach to remuneration supports successful delivery of the Company's strategy. As such, a significant proportion of pay is performance based with a range of financial and non-financial measures used, as well as overall Committee discretion to ensure pay is appropriate and fair in the context of Company performance and the shareholder experience.

#### Chief Executive

Total Remuneration (£000s)



#### Chief Financial Officer

Total Remuneration (£000s)

